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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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HUNGARIAN EXPERIENCE IN PRODUCTION DEMOCRACY PRAISED

Sofia RABOTNICHESKO DELO in Bulgarian 9 Aug 84 p 4

[Article by Stanislav Drumeshki, Budapest correspondent of RABOTNICHESKO DELO: "Hungary--Scope for Creative Initiative; Two Worlds--Real and Imaginary Democracy"]

[Text] Budapest, August--The working people of socialist Hungary are joined by group and occupation into 19 sectorial trade unions, which are headed up by the National Council of Trade Unions. This organization plays a decisive role in the administration of the country, as well as in the organization of production activity and in the implementation of socialist democracy.

Its purposes were clearly and concretely formulated by the 12th Congress of the Hungary Socialist Workers' Party. "An important task of the trade unions," says the decision of the congress, "is to represent the interests of their members and individual strata of laborers before the management of enterprises and state agencies. The trade unions protect the guaranteed legal rights of the workers, stand up for the improvement of labor conditions and pay a great deal of attention to the political inculcation of their members and to the elevation of their occupational and general cultural level. . . Providing for the meaningful functioning of forums of production democracy, they must strive to have the workers voice their opinions and suggestions, make their contribution to the intensification of labor activity and actively participate in its administration." These requirements were supplemented at the end of 1983 by a special decree of the Council of Ministers of the Hungarian People's Republic and the National Council of Trade Unions. This decree has brought out the energies of the working people still more for the development of creative initiative in the process of labor activity and its administration. The key role now in the implementation of production democracy is given to the so-called "trade union agents" and councils thereof. This new organizational form has been experimented with in 25 large industrial enterprises. Experience has shown that both forms of socialist democracy--production and trade-union democracy--can be concretely and successfully realized in the activity of the councils of agents. The functions of these bodies include the realization of the rights and duties granted within the framework of production democracy.

One of the essential features of the joint decree is that it obliges the managements of enterprises, institutions and institutes to report periodically to the collectives on their work. For their part, the workers have the right and duty to evaluate the activities of their managers. The general trade-union meeting, as well as the council of agents, now make criticisms of the work, the appointment and dismissal of the managers of enterprises and institutions (general directors, directors and their deputies).

The new decree obliges the heads of enterprises and institutions to intensify and promote production democracy. They must, for example, see to the regular informing of workers on all questions involving plan fulfillment, economic activity and the system of distribution and incentives. At production meetings the heads must precisely explain possible plan alternatives and 8 days before the convening of meetings transmit to the participants materials regarding the subject matter to be considered. Answers to the questions that arise must be given at once or within the space of 1 month. Proposals which there are no real possibilities of carrying out at the particular moment must not remain unanswered.

New changes in the regulations affecting the working and living conditions of production workers may not be made without the permission of the trade unions. Thus, for example, changing the regulations on rationalization and inventor's proposals, the rules of socialist competition, etc., is not permitted. Trade unions have a voice in the formulation of the social welfare programs of enterprises and on all questions which are not regulated by collective labor contracts, but affect to some extent the cultural, domestic and social needs of personnel. Trade-union bodies locally can make decisions regarding the distribution of sociocultural funds, the awarding of individual prizes and titles of honor, and the principles governing the granting of bonuses.

Nowadays Hungary is indeed giving a great deal of attention to the development of production democracy in workplaces. This problem is considered not only from its economic, but also from its political aspect. Repeatedly I have been witness to the great activity and high consciousness of trade-union members in taking some creative initiative in production.

I should like in this connection to recall the answer of Minister of Industry Lajos Mehes given to my question during a press conference. My question was: How are enterprises striving to ensure high product quality. The minister replied that quality is the concern primarily of the individual production workers. They know that what they produce has no other more important quality certificate and they monitor their activity themselves.

A similar answer to the same question was also given me by a worker from the socialist labor brigade of the commercial furnishings enterprise in the city of Tatabanya, Istvan Tot, who said, "Our production requires great skill and great awareness. We produce the same products for export and for the country. We decided this at the trade-union meeting and the results are very good. I will add besides that the workers enjoy great freedom in production, but they never turn it into license."

Here is what the viewpoints in this regard are of two trade-union leaders.

Karoly Herceg, general secretary of the Trade Union of Workers in the Metallurgical, Metalworking and Electric Power Industries: "Our trade-union members take broad advantage of their rights. We decide a number of urgent questions according to signals from them. Thus, for example, with the participation of our trade union changes were made in the pay system for labor in the electric power industry. Until very recently this pay was based on the sale of more power, but the present formula requires economizing on the sale of power. We intervened and jointly with the state agencies brought the interest of the workers into line with the interests of the national economy. This is how production democracy helps both the workers and society."

Ferenc Petrak, general secretary of the Trade Union of Workers in the Leather-Working Industry: "Trade unions are the largest mass organization in production. Heads of enterprises who underestimate them and disregard their opinion are losers for it. That is how things were a few years ago at the leather and plastics fabrication enterprise in Rakospalote. The director there brooked no objections. He exercised one-man management without consulting the party or trade-union organization and the enterprise continually lagged behind. People justly grumbled. The director was dismissed. His replacement always relies on the party organization and the trade unions. The enterprise already regularly fulfills its plans. The climate is different; the social gains are different, too."

To be sure, when we talk about production democracy, we must also bear in mind the labor collectives' degree of consciousness, too. In this respect, the experience Hungary has accumulated deserves attention. Production democracy in the country has different forms in different enterprises, but everywhere it unties the hands of the working people in order to display their creative initiative.

6474

CSO: 2200/193

SLOW PROGRESS OF CAPITAL REPLACEMENT DECRIED

Prague HOSPODARSKE NOVINY in Czech 3 Aug 84 p 4

[Article by Eng Karel Novotny, ScC, Federal Bureau of Statistics: "Slow Progress of Replacement--Age Structure of Capital Assets in Industry"]

[Text] If a person is 24 years old, we do not regard him as aged, but for machinery and equipment 24 years make them too old to keep in step with the world in the production which they serve. The Federal Bureau of Statistics last year conducted a one-time survey of the age structure of capital assets in our industry, which was a methodological follow-up of a similar study conducted in 1976. The revelation that the average physical service life of our machinery is almost a quarter of a century is one among many facts thus established. In this article you will read about some others.

Data from the survey of this type are applied mainly by the planning and central management agencies as one of the bases for the plan for replacement of capital assets. The indicators of the age structure characterize the share of individual generations nearing the end of their service life in the system of capital assets, and thus also the intensity of their replacement after a long period of time.

Underutilized Machinery

The survey revealed that, as compared with 1976, the age structure of capital assets in our industry has not changed markedly. The situation of the construction factor of capital assets, where this indicator is relatively favorable, appears more satisfactory; in comparison with 1976, the average age of buildings and constructions has been reduced. Nevertheless, the age structure of the machinery factor is less satisfactory. The average age of machinery and equipment is very high and, as compared with 1976, has further increased (see Table 1).

Table 1. Age structure of capital assets in industry (calculations based on comparable prices of 1 January 1977)

	(1)	Prumerne stari v letech	Podily v% (2) z celku (3)	
			0-5 let (4)	starsi 25 let (5)
(6) 1976 Budovy a stavby		22.6	22.4	28.7
(7) Stroje a zarizeni		11.5	33.8	9.0
(8) 1983 Budovy a stavby		22.3	20.3	28.6
(7) Stroje a zarizeni		11.9	30.5	9.6

Key:

- | | |
|-------------------------|-------------------------------------|
| 1. Average age in years | 5. Over 25 years |
| 2. Shares in percent | 6. 1976 buildings and constructions |
| 3. Of the total | 7. Machinery and equipment |
| 4. 0-5 years | 8. 1983 buildings and constructions |

The share of machinery less than 5 years old declined and the share of machinery in the highest age category increased (the value of the machinery older than 25 years rose from Kcs 25 billion in 1976 to Kcs 42 billion in 1983).

According to depreciation standards in force, machinery and equipment are depreciated on the average in 14 years; however, in reality they remain in the process of production 10 years longer. As for the need to replace the machinery stock, that is an exceedingly long time, especially as compared with other industrially advanced countries.

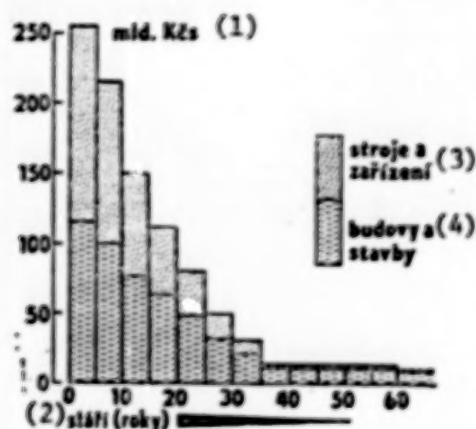
The long service life of our machinery is a result of its underutilization (machinery wears out slowly because it is used only 66 percent of the usable time for two shifts) as well as of the slow liquidation of machine equipment (the share of liquidation of machinery in our industry, based on the situation at the beginning of this year, amounted to only 1.4 percent in recent years).

Depreciation rates are set for the system of double-shift operations, while individual machines are used only for a period of 1.4 shifts. This means that depreciation at an age 43 percent higher--or 20 years--would correspond with such underutilization of machinery.

From Figure 1 it appears that the value factor of the machine predominates in the composition of the newest capital assets (under 10 years of age) and the construction component in the older ones. This is proof that modern factories, either built, reconstructed or modernized over the past 10 years, are furnished with more expensive and more efficient technology. The effort to improve its utilization should therefore be even more vigorous than in workplaces operating older equipment.

Nevertheless, the data on utilization of the workers' time in 1983 fail to support this premise. Modern, new or reconstructed factories furnished with machinery made after 1975 are using only 72 percent of the machine time, while other factories, furnished with machinery more than 10 years old, are using it slightly more advantageously.

Figure 1. Age structure of capital assets in industry as of 30 June 1983



- Key:
1. Billion Kčs
 2. Age (years)
 3. Machinery and equipment
 4. Buildings and constructions

Aging Branches

The development of the average age of the machinery in individual branches of our industry is presented in Table 2.

Table 2. Average age of machinery according to industrial branches (in years, calculation based on comparable prices of 1 January 1977)

Tabulka č. 2			
PRŮMĚRNÉ STÁŘÍ STROJŮ PODLE PRŮMYSLOVÝCH ODVĚTVÍ			
(v letech, přepočítáno na srovnatelných cen k 1. 1. 1977)			
Odvětví (1)	1974	1981	(2) Rozdíl
Průmysl paliv (3)	12,1	11,1	-1,0
Energetický průmysl (4)	12,0	12,6	+0,6
Hutnictví železa (5)	13,3	13,0	+1,7
Hutnictví neželezných kovů (6)	10,8	11,5	+0,7
Chemický a gumárensko-umělecký průmysl (7)	9,4	11,7	+2,3
Strojrenství (8)	12,0	11,8	-0,2
Elektrotechnický a kovodělný průmysl (9)	10,4	10,8	+0,4
Průmysl stavebních hmot (10)	9,5	10,9	+1,4
Dřev. zpracující průmysl (11)	9,4	9,4	0,0
Průmysl papíru a celulózy (12)	11,1	11,4	+0,3
Průmysl skla, keramiky a porcelánu (13)	10,7	11,5	+0,8
Textilní průmysl (14)	11,8	12,1	+0,3
Konfekční průmysl (15)	8,2	8,4	+0,2
Kožený průmysl (16)	11,3	11,8	+0,5
Poligrafický průmysl (17)	15,4	13,8	-1,6
Průmysl potravin a pichbotin (18)	11,7	11,7	0,0

- Key:
1. Branch
 2. Difference
 3. Fuel industry
 4. Power engineering industry
 5. Ferrous metallurgy
 6. Nonferrous metallurgy
 7. Chemical, rubber and asbestos industries
 8. Engineering industry
 9. Electrical engineering and metal-processing industry
 10. Construction materials industry
 11. Wood-processing industry
 12. Paper and cellulose industry
 13. Glass, ceramics and porcelain industry
 14. Textile industry
 15. Garment industry
 16. Leather-processing industry
 17. Printing industry
 18. Food and condiment industry

From the table it follows that ferrous metallurgy and power engineering operate the oldest machinery; the long service life of their machine equipment is given by the nature of their technology. Among the branches of light industry, the least favorable age of machinery is that in the printing industry, although the condition of the technical base in that branch has considerably improved since the last survey as a result of intensive replacement.

In recent years machinery has aged the most in the chemical industry, metallurgy, construction materials industry and in glass, ceramic and porcelain industry. On the other hand, the garment industry operates the newest machinery and now follows relatively modern and sophisticated methods of operation.

The advanced age of machinery in the engineering industry is a drawback. The average age of machine-tooling and forming equipment exceeds 12 years. In conversion of the age from the number of existing machines, the indicators of age structure in this branch are even more unfavorable--the age is nearly 18 years. The high volume of superannuated machinery reflects the tardy process of replacement, although it is precisely machine engineering that must supply modern, sophisticated technology for other branches and fulfill challenging export tasks.

Although depreciation rates cannot express the physical service life of the machinery, it is interesting to compare the period of depreciation of certain machinery with its share in age categories exceeding that period. The branches of machinery listed in Table 3 had in 1983 the highest share of machinery which had already been completely depreciated.

Table 3. Share of fully depreciated machinery as of 30 Jun 1983

Tabela 3. PODIL PLNĚ ODEPSANÝCH STROJŮ K 30. 6. 1983		
	(1) Doba odpisování v letech	(2) Objem strojů již odepsaných v procentech
Stroje pro sklařský průmysl (3)	10	47,6
Stroje pro zeměd., stavební a obilný průmysl (4)	7	61,1
Stroje pro polygrafický průmysl (5)	14	36,9
Stroje obráběcí (6)	14	33,7
Stroje pro cukrovary, pivovary, sladovny a jiné (7)	14	33,6
Stroje a zařízení používané pro chemický a potravinářský průmysl (8)	17	52,5
Stroje pro geologický průzkum (9)	6	32,1
Stroje pro chemický průmysl (10)	14	31,7

- Key:
1. Period of depreciation in years
 2. Volume of machinery no longer depreciated--in percent
 3. Machinery for glass industry
 4. Machinery for earth-moving, construction and roadbuilding works
 5. Machinery for printing industry
 6. Machining equipment
 7. Machinery for sugar refineries, breweries, malt plants, distilleries, etc.
 8. Machinery and equipment used in both the chemical and food industries
 9. Machinery for geological survey
 10. Machinery for chemical industry

From the review it follows that in comparison with the service life projected by depreciation rates, the relatively oldest machinery is used in the glass industry, construction, printing industry, machine engineering, food and chemical industries, and in geological survey.

The study further determined that the branch of industrial boilers had the absolutely highest volume of obsolete machinery and equipment. Last year more than Kcs 3 billion of it was from 25 to 50 years old and nearly Kcs 1 billion more than 50 years of age. Naturally, the advanced age of this equipment adversely affects fuel consumption in power engineering.

The results of the survey demonstrate that more attention must be focused on the replacement of machine equipment with the highest technological standards. After all, the growth of technical standards of machinery and its best possible utilization are among the ways leading to higher intensity and greater efficiency on the part of our entire national economy.

9004

CS0: 2400/425

INCENTIVES SAID TO HELP INDUCE INTENSIFICATION

Prague HOSPODARSKE NOVINY in Czech 3 Aug 84 p 5

[Article by university lecturer Dr Stanislav Adamcik, ScC, Research Institute of Ferrous Metallurgy in Dobra, Dobra branch: "Incentives Promote Changes"]

[Text] In view of the long-range objectives of our economic development it is necessary to implement structural changes and to introduce science more expeditiously into practice. The 8th and then again the 10th Plenum of the CPCZ Central Committee confirmed the urgency of such changes, particularly in our metallurgy, machine engineering and electrical engineering. Although numerous changes had been included in the Seventh 5-Year Plan, these objectives are not always successfully met. The author of this article attempts to determine the causes of this situation and to propose solutions.

The development of individual branches suggests that structural changes are not proceeding satisfactorily and that the adaptation to new proportionality is making slower progress than the plan had envisaged. Although metallurgical production in the world has been sharply declining with accelerating R&D, and our state plan for 1983 has also projected its reduction by at least 0.9 percent, it increased 1.7 percent in the first 6 months of 1983. In the same way, projections of the plan notwithstanding, the production of energy-intensive heavy chemicals, for example, nitrogen fertilizers, exceeded 110 percent. Production in the construction industry increased rapidly (by 4 percent), although according to the state plan it was supposed to decline by 0.2 percent. Capital investment also rose (by 5.5 percent), even though the plan had envisaged a 2.1-percent decline in view of the under-utilization of capital assets.

The fulfillment of the state plan for all of 1983 is proof that in principle such trend are continuing in the second half of the year, albeit with certain deviations. For instance, as compared with 1982 in metallurgical production statistical data for all of 1983 demonstrate a 0.2-percent growth of the production of crude steel, including of low-grade steel by 1.5 percent, while the production of high-grade steel (steel categories 12 through 17 and 19) was 8.3 percent down.

Planned Management

The planning center which determines the proportions between the branches and sectors stipulates the proportions by which it internalizes its objectives in the plan and allocates disposable resources to the greatest advantage. Planned proportions should then be observed by individual links in the management system and systematically implemented by every instrument of direct and indirect management.

In specific terms, this involves the stipulation of mandatory tasks in the production, financial and other plans for the khozrashchet sphere and, at the same time, in the system of accumulation of funds for personal and collective material incentives and wage control. However, the system of accumulation of funds for material incentives and wage control in enterprises and VHJ's [economic production units] should not adversely affect the implementation of proportions between branches and sectors, systematically stipulated by the plans. Actual results for 1983 indicate that the planned management system has not been entirely consistent on the line dividing the central plan from the plans for the khozrashchet sphere.

The achievement of centrally stipulated objectives in the area of proportionality depends on the pressure we can exert on the khozrashchet sphere in the long-range planning perspective. Brief interest, for example, for 1 year, does not suffice. Regulations for the creation and distribution of wages payable affect proportionality to a decisive extent. Here it applies that the criterion for the activity of the khozrashchet sphere is based on the effect stemming from economic operations, which we measure in the first place by adjusted value added. It determines the development of wages payable to a major degree.

In conjunction with the changes in proportions of the Czechoslovak economy, the questions arises of whether this criterion may also be applied in those branches and sectors for which stagnation or negative growth is stipulated. It seems that this is not the case. Then the question is: what economic mechanism should be created and what system of material incentives selected so that the khozrashchet sphere would support such changes unconditionally and efficiently?

Adjustment of Incentives

If the structural changes call for stagnation or negative growth of some production, the focus of the incentive systems in those branches and sectors must be changed; otherwise, the conditions for the growth of the volume of production are restored, no matter whether we measure that volume by the production of goods, adjusted value added, or in any other way. In its consequences this leads to the nonfulfillment of the plan and to disorganization and setbacks of the planned structural changes, as is evident from last year's development.

If we confront serious deviations of actual trends in production in stagnating or regressive branches with their system of rewards, we may see that due to inertia they remain focused primarily on the fulfillment or overfulfillment of their production tasks or, as the case may be, on construction production.

Even under considerably changed conditions the systems of personal and collective material incentives and wage control in force prefer fulfillment and overfulfillment of the volume of production and only vaguely recognize the urgent need to observe the proportionality of the state plan. This attitude is evident even now, when the state plan posits the concept of zero growth or even negative growth of the production.

It seems that in such instances it may be useful to modify the unity of social and collective interests so that incentive systems are focused not on the maximization of production (and on the consequent maximization of wages), but rather on the achievement of essential goals integrated in the state plan and of tasks with the lowest specific costs.

As for our metallurgical production, whose stagnation or slight decline is already included in the plans, we are beginning to take steps that will ultimately promote structural changes in the Czechoslovak economy. Since 1982 the drafting of economic plans in all metallurgical branches has fundamentally differed from the preceding period. While the main concern in past years was to produce the planned volume of metal, the goal today is to satisfy the needs of our national economy with a lower volume of production and to fulfill the increasing tasks, particularly of machine engineering, with materials of superior quality.

Correction of Targets

Thus, structural changes in metallurgical production begin with a change of its targets. Stagnation or negative growth of metallurgical production transfers its dynamism from the volume to the quality of produced metals and metallurgical products so as to enhance their utility value. Changes in the focus of incentives in the outlined direction may ensure this development, although its specific results cannot be expected immediately, because in principle the technological production base of ferrous metallurgy is focused on a single purpose with a relatively long service life of capital assets, and requires enormous investments. This also explains its problems with the slow progress toward the achievement of a greater share of high-grade steel in the total volume of steel production.

Although statistical data on actual achievements for 1983 still document the development determined in the period of primarily extensive growth, the orientation toward the new proportionality is already advancing, which in ferrous metallurgy is evident from the manifest increase of the pressure by the center for intensification of metallurgical production and for allocation of investments for selected innovation programs. Tasks aimed at efficiency are emphasized. The khozraschet sphere is focused on comprehensive analyses of the methods for better utilization of assets and on specification of

enterprise programs for conservation of fuels, energy and metals, and in particular on new programs for upgrading the quality and utility value of metallurgical products.

The opportunities stemming from the territorial deployment of our production complexes, from regional proportionality, will be an important factor of structural changes. In the past the rapid growth of metallurgical production has led to a cumulation of demanding investment programs in industrial clusters. We had to cope, often under extremely stressful conditions, with the consequences for the territory, such as transportation, water resources, housing construction, services, working conditions and environment. Our major metallurgical enterprises in the Ostrava area, Trinec, Kosice and Kladno became the foci of growing regional polarities. Additional industrial plants were built around them, and new housing developments, settlements and suburbs posed a great variety of problems. A certain stabilization of regional proportions will facilitate the solution of such problems. Naturally, by the same token necessary conditions must be intensively created for their dynamic development and new regional proportionality.

9004

CSO: 2400/425

AUTHORS ISSUE WARNING, DISCUSS ENERGY PROBLEMS

Increasing Costs of Energy

Prague HOSPODARSKE NOVINY in Slovak 3 Aug 84 p 8

[Article by Eng Karol Galik, Nickel Smelting Works, Sered: "Results of Initiative"]

[Text] The state goal-oriented program for conservation of fuels and energy stipulated the tasks for comprehensive relative annual savings of 12 to 14 million tons of specific fuels in 1985 as compared with 1980. The 16th Congress set the task of conserving annually at least 2.5 percent of fuels and energy; that task was later increased by another 0.5 percent. Our economy is highly energy-intensive. We are using a large share of solid fuels, mainly low-caloric lignite with high contents of water and ash. Our balance is further complicated by the great volume of production of energy-intensive products, moreover, with a disadvantageous structure. In comparison with other advanced countries, we are producing substantially more energy-intensive goods in conversion per capita; our energy consumption is raised further by certain basic production assets.

The escalating costs of energy from our own production and from imports call for the allocation of increasingly greater portions of the national income for that sector. For that reason, much attention has recently been focused on the rationalization of our fuel and energy consumption, and also for that reason we are discussing these problems in our publications.

Nickel production requires considerable energy due to the nature of the processed raw material--nickel-poor ore--and the applied technology where hydro-metallurgy follows pyrometallurgy and ends with electrolysis. Total energy consumption (consumption of electric power, steam, natural gas, compressed air, and cooling and industrial water) exceeds 100 GU per ton of nickel. Every reduction of specific consumption in our current production of nickel is therefore most welcome and may lead to considerable savings.

By gradual intensification of the production, with a low level of capital appropriations (about 2 percent of the value of capital assets), rationalization measures, and application of the achievements of research programs during the Sixth 5-Year Plan, we cut specific consumption of fuels and energy

by 22.3 percent, with a simultaneous 10.5-percent growth of production. This exhausted a major part of our reserves.

In view of the tasks stemming from the decisions of the 16th CPCZ Congress and the 10th All-Union Congress, further rationalization of fuels and energy will be much more challenging. It calls for new approaches and for a search for new solutions. Nor can programs which require high investments be avoided. The achievement of planned savings of fuels and energy in the value of 90 TU, which represents 2.7 percent of total annual consumption, demands all forms of mass political action to be directed toward the stimulation of our working people's initiative and promotion of the improvers' movement and of the activity of comprehensive rationalization teams.

A reduction of energy consumption in production calls for concentration on the resources of raw materials, technology, machine equipment and on avoidable losses of energy.

Raw Materials

As concerns raw materials, higher yields of nickel from the ore, which means lower consumption of the processed raw materials at the same level of production, may bring considerable savings. In our production a 1-percent increase in the yield represents an annual savings of 38 TU. Comprehensive rationalization teams have the ongoing task of raising the yield of nickel by cutting losses in operations. At present, however, we are restricted in implementing this method of conservation because the quality of the imported ferrous-nickel ore is inferior to that considered in the plan.

We are therefore studying the prospects for acquiring raw materials of better quality. On an operational scale, we tested the advantage of processing laterite ore with higher contents of nickel than in the imported ore. Besides other technical and economic advantages, we saved almost 6 TU in the production of 60 tons of nickel from that ore. Since there is less waste as well, we shall continue to explore this method.

Replacement of the ore with concentrates may reduce energy consumption by up to 80 percent and offers substantially greater opportunities for cutting energy consumption in our production. However, the capacity potential for the processing of concentrates and, above all, the opportunity for their acquisition are limited. Therefore, we are concentrating in our R&D base on testing the possibility of processing various raw materials--industrial waste--containing nickel and other metals.

In our production we are introducing in operation the results of research in this area. This conserves metals in short supply in our national economy and, in addition, a considerable amount of fuels and energy is saved in processing certain types of waste that may be used in some of the final technological stages.

The last opportunity for conservation of energy from sources of raw materials is the recycling of internal waste--refining and anode sludge. This method

saved us 4.6 TU in 1983, and we are planning to conserve 9.4 TU in 1984. While the solution of the processing of refining sludge was a research task, the processing of anode sludge is the result of the team's initiative within the framework of creative plans devised by technicians and engineers.

Methods

One of the most important technological measures was the optimization of the consumption of cracked natural gas with ore reduction based on our own research. This determined the relation of the yield of nickel to the consumption of gas, and the margin of economy. The most advantageous system of operations maintained in reduction furnaces cut the consumption of natural gas by more than 1,000 Nm³ per ton of nickel. This was enhanced by regular operations of reduction furnaces as a result of observation of labor and technological discipline.

In the wet separation of ore from the light ashes in the mechanical ore-dressing plant about 5,000 tons of ore used to be trapped in sumps in the forms of sludge that had to be dried and then crushed again. The introduction of the dry dust separator in the grinding plant saved annually 3.8 TU of fuels and energy used previously for repeated drying and grinding of the ore. We are planning to install a dry dust removal system in another production department that will eliminate the double drying and grinding operations in the processing of about 9,000 more tons of ore.

By increasing the concentration of nickel in the extract before its distillation we shall cut thermal consumption in 1984 by about 5 TU; by preheating reduction gas with the heat of the ore released from reduction furnaces we shall conserve an additional 4 TU. Furthermore, energy is indirectly conserved by recycling industrial water in departments where appropriate conditions have been provided.

Machinery

The rationalization of machinery and equipment operation varies; solutions do not always have to be complex. Insulation of heating tanks, evaporators, steam ducts, recycling of the concentrate, modernization of obsolete exchanger stations and equipping them with thermal valves conserve heat. To save electricity, oversize capacity pumps will be replaced with pumps of adequate capacity, rotary welding equipment and rectifiers with semiconductor units and lightbulbs with discharge tubes; central light switches will be installed in large rooms, and a number of other measures will be introduced.

Another advantage stems from automatic operation control of piston compressors according to an improvement proposal by the BSP [socialist labor brigade] from the department of power generation. Nevertheless, we must also focus minor rationalization measures on using machinery and equipment to their fullest capacity. A weighty problem here is caused by shortages of spare parts and the long terms of their delivery.

Losses

In our enterprise we maintain inventories of avoidable losses of energy, among them secondary sources of heat in power generation, the greatest among them being technological waste water from the finishing production department, released at 60° to 70° C with 77 TU of total usable heat. Of that we are using annually 34 TU to heat untreated water prior to disilication; we shall utilize another 4 TU to heat chemical containers. Agriculturalists have expressed interest in the utilization of the remaining heat and these [chemical] solutions to heat hothouses; however, this possibility has not yet materialized.

Dusty gas leaves reduction furnaces at temperatures of 250° to 300°C, with 50 TU usable heat. The utilization of that heat would require sizeable investments because of the complexity of technical designs and operational safety. Similarly to the utilization of other secondary sources of heat with lower usable temperature drop and thermal contents, this problem involves the determination of the place or medium which may be heated with waste heat. The cut of avoidable losses of energy is also reflected in the rationalization of technology.

For the immediate future we are planning, for instance, gradual reconstruction of nickel electrolysis, in which systematic rationalization of electric consumption is inhibited by the low quality of imported filter cloth and its irregular thickness all over its surface. In this case it would help considerably if our manufacturers would provide us with a cloth suitable for that purpose.

Investments Alone No Solution

Prague HOSPODARSKE NOVINY in Czech 3 Aug 84 p 9

[Article by Eng Zdenek Zlabek, manager of the technical sector, CKD Foundaries in Prague: "When Investments Are Not Enough"]

[Text] Our energy-intensive metallurgical production demands fundamental solutions in seeking methods for necessary conservation. Investments in the reconstruction of equipment are limited by allocated funds, planning capacity and the need to maintain the planned volume of production. For that reason we have focused on the systematic improvement of operating technology, aimed at a continuous reduction of specific energy consumption in the production of castings.

Commission and Technology

Adjusted prices of individual types of fuels and energy raised the share of costs of energy in total material costs so much that it approaches 20 percent. The most energy-intensive operations are the melting of metal charges and thermal processing of casts, but there is no basic difference in the production of casts from ferrous and nonferrous metals. When searching for sources of potential energy conservation, certain specific

factors render the conditions for operation in engineering metallurgy more difficult than in metallurgical production. The negative effect of relatively small melting units, the interrupted process in the production of broad lines of materials for casts, and organizational problems in maintaining continuity with molding shops, i.e., receivers of the molten metal, is generally evident.

The above-mentioned factors also considerably aggravate the utilization of waste heat from melting units, which might be a source of conservation because certain types of furnaces use only 30 percent of the input. In view of the fact that we are producing casts from grey cast iron, nodular cast iron, cast steel and nonferrous metals, our energy is derived from electricity, natural gas and foundry coke.

Good energy management fundamentally affects the economic achievements of an enterprise. This is commensurate with the attention paid to rationalization measures. The rationalization group of specialists in energy conservation has submitted proposals for such measures and, according to the importance and feasibility of their implementation, has included them in its plan of rationalization for individual periods of the year. The proposed measures were approved by the executive commission of the KSR, whose chairman is the director of the enterprise. It approves planning specifications for individual tasks and calculations of planned savings and budgets of the costs of implementation.

The tasks included in the plan and resolved by rationalization teams of the group of specialists are systematically checked and reviewed every quarter. At the same time, ways are sought and measures adopted to maintain the planned schedules. This continuous control as well as the conditions provided for the smooth progress of rationalization programs are bringing results. The plant consistently meets the specification of tasks of State Goal-Oriented Program 02 and has conserved 20.4 TU in 1983.

The change of the metallurgical process in the production of nodular cast iron which is melted in arc steelmaking furnaces is particularly noteworthy among individual programs. Its original technology was identical with that used in steel production. Melt-down was followed by the oxidation period and the required chemical composition (C contents) was achieved by carbonation of the bath with resinous coke. Energy consumption in this process was comparable to that in steel production, and average consumption in our melting units amounted to 750 kWh per ton of liquid metal.

The technology for all brands of nodular cast iron, which was prepared, tested and introduced in operation, is based on the remelting of appropriate steelmaking pig iron supplied by the USSR and on a higher share of the recuperative material. With organizationally ensured individual shares of the charge in appropriate chemical composition, the time required for melting is cut by one-third as compared with the original melting method; average consumption is cut down to 550 kWh and recuperative material which used to be resold to metallurgical plants is recycled. Total savings represent 1.4 million kWh annually. The fact that the rationalization team

composed of experts on material development and production resolved this task in only 6 months and that its results were immediately applied must be particularly appreciated.

At the same time, the chemical composition of the molten metal was determined so accurately that the number of meltings with the required mechanical values in melted condition increased. Thermal processing of castings was considerably reduced and is done only in products repaired by welding and in details in which risers are removed by burning. This saves additional natural gas used to heat up the annealing furnaces. This technology was also successfully introduced in other foundries producing nodular cast iron, and thus its total contribution to our national economy was further enhanced.

Insulation and Intensification

The CKD [Ceskomoravska-Kolben-Danek Machinery Works] foundries are among the first plants in our republic to find the answer to greater efficiency of industrial furnaces by use of nonconventional insulation materials based on aluminum silicate fibers developed in industrially advanced countries in the 1970's. In view of the fact that this material may be manufactured from raw materials that are easily available in our country, industrial application of this type of material began in the CSSR shortly afterwards.

The result of the state developmental task resolved by the Glass Research Institute and the VHL [economic production unit] in Vitkovice in 1977-1979 was a material called Resistex, designated for continuous operation at a temperature of 1,260°C. Its heat resistance exceeds the currently used expanded insulation materials, which are not suitable for lining of the face of the heated area and for direct contact with flames. We introduced it in the CKD in cooperation with the Teplotechna enterprise in Olomouc in 1980, although the start of the production of Resistex had been delayed due to slippages in the preparation of its production facilities. The result has fully met our expectations and now we have eight drying chambers and two annealing furnaces insulated with Resistex in operation in the grey cast iron foundry and in the steel foundry.

We produced additional insulation by laminating sheets on the conventional fire-clay lining, and thus no adaptations of the units were necessary. Lower heat passage in the basic masonry and reduction of thermal inertia saved 20 percent of natural gas with no further adaptations. We were one of the first plants in the CSSR to introduce this method. We are also replacing imported Kalmin insulation lining with Resistex. Resistex has been successfully introduced in the operation of nonferrous foundries. In certain casts we cut down the volume of risers to one-third and gradually improved the utilization of the molten metal. The significance of this method for saving melting costs is self-evident.

In conjunction with the total overhaul of the production of grey cast iron, we are now dealing with intensification of the operation of the cupolas. Conventional cold-blast cupolas are being adapted to expand the melting zone and to furnish them with automatically controlled continuous air delivery.

Tests in operation confirmed that the consumption of coke may be brought down from 250 kg/t of casts to 150 kg/t of casts, i.e., from 18 percent to 11-12 percent of the charge. The temperature and the amount of the melted-down metal are maintained; the temperature of cast iron may be raised or the amount of the melted-down cast iron increased in case of higher demand. In cooperation with the Gisag firm from the GDR we are planning to finish the reconstruction of the cupolas by mid-1985. Total annual savings of Kcs 500,000 for foundry coke represents a fast return on investments.

While implementing the program of energy conservation in technological processes which have a decisive part in total consumption in future years, we planned specific actions aimed at expanding the production of cast in raw, which will conserve natural gas by eliminating the operation of drying chambers and which will further determine thermal processing, along with an expansion of the line of castings attaining the required mechanical properties in their molten condition. For the next 5-year plan we see the best opportunity for conservation in recycling waste heat.

The sources of waste heat may be economically utilized if the manufacturers specializing in the required technical equipment produce such equipment because we cannot manufacture it on the necessary technical level for all types of heat receivers, not to mention the fact that such diffusion of technical and production capacities would be unprofitable. We expect that progress in this area will eliminate current difficulties when technological measures and the acquisition of investment units cut direct energy consumption; however, operational costs are rising with the growing demands on the working environment and pure air.

Energy-Reducing Measures Viewed

Prague HOSPODARSKE NOVINY in Czech 3 Aug 84 pp 8-9

[Article by Eng Karel Krt, Federal Ministry of General Engineering: "What Reduces Consumption"]

[Text] By CSSR Government Decision No 329/1981 the FMVS [Federal Ministry of General Engineering] was assigned the task for 1983 of implementing rationalization programs which would produce relative savings of fuels and energy in the amount of at least 3,751 TU. We conserved 4,835 TU, including 964.4 TU by rated programs. Our savings represent 4.54 percent of our ministry's total consumption of fuels and energy in 1983.

In 1980 the total energy consumed by the FMVS amounted to 107,613 TU; last year it declined to 106,526 TU. We succeeded in reducing specific consumption of energy from 1.15 TU/million Kcs of gross production in 1980 to 1.01 TU/mil Kcs last year. We presume that before 1985 we shall cut energy consumption in our production by a total of 17.5 percent as compared with 1980.

As important programs we regard, for instance, the recycling of waste heat from factories for surface treatment in Agrozet in Pelhrimov by means of econvent, which will save 25 TU annually, and the recuperating process in

test runs of Diesel engines in the Tatra works in Koprivnice, with annual savings of 24 TU. Even more significant are the development and production of new engineering goods and equipment for operation at lower specific energy consumption. Only engineering branches are manufacturing equipment that produces, transports, transforms, consumes, and for final effect transfers all consumed energy. The technical, or power engineering, standard of such innovations will certainly be most decisive for the further improvement of the utilization of fuels and energy in our entire national economy.

State Goal-Oriented Program 02 stipulated five rated innovations of goods and their production, which will save energy in other branches of national economy. Thus far our ministry has planned and is studying more than 70 innovation programs for individual products, machinery and equipment.

By the technical development, innovation and manufacture of 58 types of selected engineering products, our ministry succeeded in 1983 in providing conditions for an annual conservation of 353 TU of fuels and energy by manufacturers in the CSSR. This year it is realistic to project that the production of 66 types of selected engineering products will make it possible for the CSSR consumers of those products to conserve 431 TU annually.

The self-propelled model SPS 35 straw harvester made by Agrozet in Prostějov serves as an example of a product which has been successful from the viewpoint of power engineering as well (savings of 55 TU in 1983).

Although all VHJ's have realized the importance of public review of the management of fuels, energy and propellants and have approached them responsibly, the final results have differed due to the effect of the varied structure of the production programs and to the level of political-organizational and managing work of the managers in charge. Recommendations made by the representatives of the State Inspectorate Power Engineering of the CSR and SSR were also included in the conclusions of the review.

Tests and Competitions

Proposals for savings of 2,855,000 GU, made on the basis of public reviews, will be gradually implemented. The savings of solid fuels (43 percent), electricity (24.3 percent) and heat (7.2 percent) will be significant. The projected savings of light and heavy heating oils amount to 7.2 percent and of propellants to 2.24 percent. The results of public reviews in 1983 and in the following years will be reflected in the proposals for operational plans for the remaining years of the Seventh 5-Year Plan. As for the absolute savings of energy, fuels and propellants achieved by individual VHJ's, the best result--total savings of 429,000 GU--were reported by the Heavy Engineering Works VHJ in Martin.

As a result of public reviews thus far, methods were derived for the solution of several fundamental tasks, such as greater emphasis on the pre-planning and planning preparations. Moreover, innovations of goods were reviewed from the perspective of energy consumption and material incentives to encourage conservation of energy, etc.

In addition, measures aimed at indirect conservations were adopted; they focus on vital sources of potential savings. Tests have shown that despite the 3.5-4 percent relative annual savings in total conservation of fuels and energy, we still have unused potential there.

In cooperation with the Central Committee of the Metalworkers' Trade Union Association, we organize an annual socialist competition for the VHJ with the best record in rationalizing energy conservation in our ministry. We are focusing on the initiative of all employees of our ministry, innovators and improvers, work teams, the KRB's [comprehensive rationalization brigades], the BSP's and youth teams.

After reviewing the results of the socialist competition for the VHJ with the best achievements in rationalizing energy consumption in 1983 in our branch, and in agreement with the Central Committee of the Metalworkers' Trade Union Association, the collegium of the CSSR Ministry of General Engineering awarded the first prize and granted the banner of the minister of general engineering and of the chairman of the Central Trade Union Committee of metalworkers to the Czechoslovak Automobile Works VHJ in Prague. This VHJ achieved in 1983 very good results in every indicator by which the competition was judged. Realization measures saved the VHJ in reality 1,933 TU instead of the planned 1,588 TU. Above all, competitions among its plants, the BSP movement, the work of the KRB and of Reflektor Mladych helped win first place in the socialist competition for the best enterprise of the VHJ. Special bonuses for the conservation of fuels and energy acted as an important stimulus.

The second place and honorable mention in the competition were awarded to the Heavy Engineering Works VHJ in Martin, which exceeded the planned conservation of fuels and energy amounting to 535 TU by 279.8 TU and thus, met the assigned task at 150.4 percent. The excellent results in energy conservation at the VHJ were aided by improvement proposals for the reconstruction of the furnaces with the use of advanced heat-resistant thermal materials, for expansion of the boiler operation, for replacement of acetylene with natural gas, and for adjustments of the heating units. The Prago-Union VHJ finished in last place.

In addition, our ministry participates every year in the statewide competition under the slogan "For the Rational Utilization of Fuels and Energy." Above all, rationalization solutions with very low costs of implementation and fast returns on investments were submitted in the competition last year. Our ministry submitted 50 of the 314 entries in the competition, representing savings of 10,978 tnp.

Problems and Solutions

While reviewing the fulfillment of the tasks stipulated in the decree of the minister of general engineering of the CSSR No 9/1983 on the implementation of the state goal-oriented program for conservation of fuels and energy in the FMVS, the members of the executive board noted shortfalls in the fulfillment of certain tasks.

As concerns technical and material means for the rationalization of fuel and energy consumption, measuring and control technology is not available. Precisely because of the shortages of measuring and control equipment, technically justified standards have been introduced in only 100 out of 400 energy-intensive products and technology before the end of 1983. That task is in jeopardy; nevertheless, it may be realistically expected that it will be fulfilled after the supply of measuring instruments improves.

Furthermore, recuperating heat exchangers are not available; there are no funds for the modernization of obsolete boiler rooms. Heat pumps for recycling low-potential heat sources are not being manufactured. On the other hand, the demand for equipment for heating water by solar energy has been meager. Therefore, capital investment to expand the facilities for the manufacture of collectors has been delayed.

The shortage of energy-saving sources of light continues. Standards for lighting, ventilation, heating and building construction are still not sufficiently conducive to conservation of fuels and energy.

We have announced a number of material incentives to stimulate interest in the conservation of fuels and energy; however, their efficiency has not been consistently assessed. Organizations are paying attention primarily to their readily accessible resources with relatively short implementation schedules and low investment cost. Major investment programs are launched in most cases for other reasons, and conservation of fuels and energy appears as a side effect.

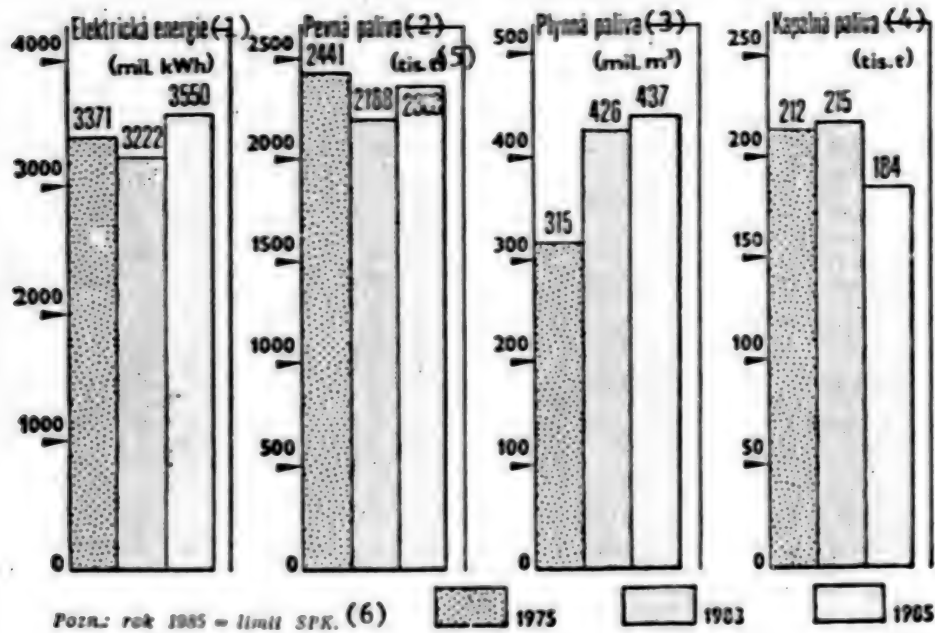
To improve this situation, a time schedule was prepared for the determination and introduction of technically justified standards before 1985, in order to standardize 90 percent of the consumption of energy in the production of selected goods. Nonetheless, it is difficult to achieve this goal because reliable measuring instruments and control and automation equipment are not available. The necessary methodology for the standardization has already been prepared. The contribution of conservation of fuels and energy cannot be calculated at this time from the introduced standards for consumption; however, savings of 10 to 20 percent may be envisaged.

The necessary review by the CSN [Czechoslovak Standards] is followed by the demand that the line of construction materials be expanded. Some of them cannot pass the more rigorous criteria of the CSN for thermal properties of construction materials.

At present we are processing for the Federal Commission for Research and Development and Investment Planning a review of regulations for capital investment and CSN in order to eliminate any unjustified demands that raise the consumption of energy.

The VHLJ's have prepared a system of measures for implementing the results of public reviews. For that purpose the ministry will draft an appropriate program, including the control system.

Consumption of fuels and energy in the FMVS in 1975-1985



Key:

1. Electric power
2. Solid fuels
3. Gas fuels

4. Liquid fuels
5. Thousand tons
6. Note: 1985= limit of SPK
[State Planning Commission]

9004

CSO: 2400/412

PROBLEMS IN SUGAR BEET PRODUCTION REVIEWED

Prague RUDE PRAVO in Czech 16 Aug 84 p 5

[Article by Eng Antonin Kovarik, CSc director of research and development of the Sugar Refining Industry, CSAZ Food and Nutrition Industry board member]

[Text] The sugar beet, that outstanding technical product, has in recent years become one of the weakest items of vegetable production. Even though in comparison with the prewar years its yield per hectare has risen, the decline of its sugar content and of its technological quality causes the yield of sugar from 1 hectare to be lower--and in contrast to highly productive beet growing countries it is roughly half. Also the processing industry in our country is behind world trends. The average processing capacity for sugar beets in the CSSR is low, and connected with this is the low productivity of work and a higher expenditure of energy.

The basic means of production in the sugar beet industry of the CSR are from a physical and moral point of view conspicuously obsolete and function at a low technological level. This is manifest in higher losses of sugar (as a result of greater storage and technological waste) and in the overly large production of molasses. The degree of automation in production management is totally inadequate, as is the mechanization of some sectors, where up until now it has been necessary to expend considerable amounts of hard physical labor. In a number of productive sectors the aging of the basic means of production takes place faster than they can be replaced; this leads to the growth of a need for a large amount of repair work in the face of a constantly mounting risk of breakdowns.

The chief inadequacy in the cultivation of sugar beets in our country is the poor condition of the soil, and there is also a lack of suitable sowing machines, which does not permit a sufficiently precise sowing of seeds. In addition, there are low figures for individual growths and there is too much space between some growths. There are errors in agrotechnology in fall and spring work (again this is unfavorably affected by a lack of suitable machines and equipment). There is a lack of herbicides of the right sort, and there is an excessive use of industrial fertilizers. Also, unsuitable machinery for the harvesting of sugar beets results in high losses at harvest time.

Another unfavorable phenomenon is unregulated harvesting and the stockpiling of sugar beets such that a disproportionate length of time is spent in storage. If as an aim for the near future we set a goal of obtaining 5.5 tons of refined sugar per hectare, this represents an increase of 2.1 tons in comparison with the present situation. By dividing up the individual disadvantageous trends we find their approximate shares to be the following: bad harvest 18 percent, sowing and the number of individual growths 15 percent, nourishment 15 percent, condition of the soil 14 percent, quality of the seed 10 percent, preparation for fall 10 percent, quality of spring work 7 percent, storage 5 percent, reception and handling 3 percent, disease and pests 3 percent (with the exception of the disastrous outbreak of viruses in the year 1981). Taking local conditions into consideration, through agrotechnology and the equipping of agricultural enterprises with technical means these values can naturally be significantly changed and some even completely overcome.

The sugar beet harvest in our country is brought in partly by the three-row, and partly by the six-row harvesting rig. Roughly 60 to 70 percent of the area is reaped by the six-row harvester KS-6. This, however, does not provide a qualitative indicator according to approved agrotechnical standards.

The quality of sowing machines that are available in the CSSR is very unsatisfactory and assures a sowing performance over a set distance of only 40 percent. A fleet of sowing machines cannot fully achieve the present applications of herbicides against weeds. The overwhelming majority of sowing machines are not suitable for the precise sowing of single sprouting seeds over an optimum set distance, which puts conditions on the application of large-scale technology with a minimum of manual labor. The result is a low number of plants and too much empty space between growths.

Another of the important factors that affect high yields of bulbs of good quality is correct nourishment of the sugar beet. It is well known that this plant needs a great many nutrients for its growth and that it reacts disadvantageously not only to deficiencies but also to excesses, especially of nitrogen. For this reason since 1981 the sugar beet industry has been making analyses of the soil to determine the nitrogen content of the tracts of land intended for sugar beets and has been giving recommendations concerning optimum applications.

On the basis of good results measures for control of the nourishment of sugar beets have progressively intensified; they have been enriched by analyses of the soil through the method of electroultrafiltration, by the prescription of applications of nitrogen, phosphorus, potassium, and magnesium, and by observation of soil acidity. The whole system is gradually being extended even into microelements.

A significant factor in the improvement of conditions for the sector of cultivation and purchase of sugar beets is the intensification of integrated relations between sugar manufacturers and agricultural enterprises. They are aimed at an improving organization of the harvest and of storage, joint

construction of depositories, and a better supply of producers of pesticides, machines and implements. These intensified relations would also include consultations between sugar manufacturers concerning the nourishment and protection of the sugar beet. These integrated relations would involve long-term negotiations.

For improving conditions in the processing industry a governmental resolution was adopted; according to this an extensive reconstruction and modernization of the sugar refining industry is to begin. The capacity of selected plants will expand in order to process up to 2 and 3 thousand tons of sugar beets a day in light of the present technological modernization. Unsuitable machines and equipment are gradually being replaced by new ones, which have been developed by the machine division of the Research and Development Foundation of the Sugar Manufacturing Industry. There are, for example, mechanized filters, conveyor belts for pressed goods, depositories for sugar beets and similar items. The technological plans for sugar beets have been simplified by the introduction of new products, which are less costly from the standpoint of energy. In the projected preparations there is also a plan for the building of silos of a new type for the stockpiling of sugar.

The aim of the sugar manufacturing industry is not only, in cooperation with agriculturists, to increase the yield of sugar in the field. The industry is also considering the possibility of processing increased yields of sugar beets more effectively--without waste and with a lower consumption of energy and manpower.

12313

CSO: 2400/419

POLL SHOWS FIRMS 'AMBIVALENT' TOWARD NEW ASSOCIATIONS

Warsaw ZYCIE GOSPODARCZE in Polish No 33, 12 Aug 84 p 9

[Article by Anna Fornalczyk: "Enterprises on Associations"]

[Text] Proposed as the first stage of reform, a complicated reorganization of the economy was started, and has been finished, by the elimination of unions and a quite hurried creation of voluntary and obligatory associations of enterprises. Associations are, therefore, criticized for having nearly completely recreated the old, union structures and for not meeting the expectations even partially of demonopolizing the economy.

Here we might add that the center introducing the economic reform did not give a good example, duplicating the union structures in the new dress of obligatory associations. The causes of the present situation can be found both in the methods of managing the economy during the period preceding the full implementation of the reform and in the universally experienced shortages of means (financial and material) necessary for implementing enterprise activity.

Fact and Opinion

collected in the course of investigations conducted in 49 enterprises in 1983* may serve to elucidate the nature of these causes. A significant majority (27) of these enterprises were under the aegis of the Ministry of Chemical and Light Industry. The results of the investigations confirm the opinion that enterprises are universally entering into associations. (Among the enterprises studied, only two remained outside associations.) More than 1/5 of the enterprises in associations belong to obligatory associations, and half of these are producers of market goods.

Belonging to obligatory associations is justified by the specifics of production (pharmaceutical products, agricultural products, defense,

*A team of workers of the Institute of Political Economy, Lodz University, studies enterprise functioning under conditions of the economic reform. These studies are implemented within the framework of an interdepartmental problem (MR III 16) and coordinated by the Institute of the Functioning of the National Economy, Main School of Planning and Statistics. It is expected that these studies will be completed in March, 1985.

communication, and motorization). This argument, however, seems less than convincing since government orders pertaining to especially preferred production could be an effective substitute for association structures.

Only four enterprises belong to two associations simultaneously. In each case, it is a matter of belonging to a branch of an association (created on the organizational and personnel base of an eliminated union) and to a multibranch association whose purpose is to ensure the supply of raw materials for associated enterprises. The branch character of obligatory and volunteer associations of state enterprises is formally accommodated by registration; in the constitutions of all associations studied, there is a declaration that they are open organizations. But at the same time, it is added that enterprises with a similar production profile are eligible to belong to the association. The universality of enterprises belonging to branch associations has the result that it makes no sense to seek a relationship between the tendency of enterprises toward forming associations (voluntary associations) and their size and/or results of productive-economic activity.

In the Opinion of Enterprises

and speaking more precisely, their administrative personnel, the activity of associations deserves a relatively positive evaluation. This evaluation was made according to a six-step scale and from the point of view of the effect that belonging to an association had on conditions and results of enterprise operation. It must be assumed that the lack of decidedly negative opinions and only one decidedly positive opinion is due to the short period of functioning of associations and the ambivalent attitude, on the whole, of respondents with respect to these organizations.

Approximately 47 percent of the enterprises responded that the benefits of belonging to an association outweigh the disadvantages; 17 percent, that the benefits and negative factors are equal; 9 percent, that the negative factors outweigh the benefits; 26 percent, that belonging to an association has no significance for the activity for the enterprise.

In the estimation of the enterprises, the negative aspects of belonging to an association are primarily the need to supply information for the use of that organization and financing its activity. Considering that after 1985, expenditures for financing activity of voluntary associations will be covered out of the profit to be divided, it may be assumed that this will have an effect on the more critical relation to associations. This is all the more likely since the division of profit lies within the competence of workers' self-management. Therefore, since there will be no obvious benefits for enterprises in belonging to an association, this may discourage workers from financing the activities of useless creations.

It is interesting that there is no clear difference in the distribution of positive and negative evaluations of the activity of associations, depending on their obligatory or volunteer character. In both cases, almost half the

enterprises polled gave a positive evaluation. Among obligatory associations, those received a positive evaluation that were created on the basis of a preliminary preparation of the enterprises for organizing voluntary associations.

The interpretation of these facts may be two-fold. Either the tendencies of the enterprises toward association, agreement in the last analysis with the founding organ and with the elimination of the union, anticipated to some extent the shape of the obligatory associations (the result of more than thirty years of practice and training of the administrative personnel in the dictatorial-distributive system), or else there was a departure in the obligatory associations from applying the traditional dictatorial methods, replacing them with more refined methods of influencing the enterprises.

Before we consider the method of influence more closely, it would be worthwhile to add that a positive evaluation of belonging to associations was expressed by 70 percent of the enterprises-monopolists (the only or principal producer, 46 percent of all the enterprises studied) and simultaneously the producers of market products. This fact cannot be explained by the difficulties with sales in the national market. It is the result of the general situation of shortages in the market (only 19 percent of the enterprises studied indicated difficulties in this area).

The desire for associations on the part of producers-monopolists seem to emanate from supply difficulties and the desire to ensure for themselves greater power in making contacts with the center. This conclusion seems to be contrary to the widespread view that the method and tempo of creating associations, the scale of this process and the preservation of organizational continuity (union--office of the plenipotentiary of the minister for separate production agreements--associations) indicate that if the center aimed at exploiting the associations (voluntary and obligatory) as

Channels of Interference

in the activity of independent and self-financing enterprises, this aim would be based on demanding, at this time, the role of association organs, and primarily of the director and office of the association.

In the enterprises studied, we looked for such interference in areas such as: planning (development and implementation), government orders, employment and pay, and prices (an equalizing computation of prices in the association). It was confirmed, however, that cases of interference from the center through the association organs were few and pertained mainly to planning and government orders. Quite symptomatic also is the fact that in the estimation of the enterprises, the role of association organs was not treated as an independent form of interference, but as for transmission of recommendations, suggestions or propositions of the organs of the central economic administration.

None of the enterprises questioned complained about the use of traditional, dictatorial methods of shaping their activity by the founding organ through the mediation of the association organs. The task assignments (quantity and assortment, production structure, basic economic indices, contributions to plans for 1983-85), which reached 16 percent of the polled enterprises, were not accompanied by sanctions covering nonperformance.

It is worth emphasizing that only one enterprise evaluated these forms of interference in the formulation of plans negatively. In three enterprises, the implementation of the production plan was checked by the association office during the year, but nonfulfillment of the plan did not result in any sanctions. Implementing the realization of the assignments emanating from the operational programs and government orders was not possible in practice for the simple reason that even those priority assignments did not have sufficient supplies. The system of central distribution was, therefore, ineffective in face of an excess of priority demands.

The idea behind establishing the associations was that they were to integrate the enterprises around concrete undertakings or interests, while the enterprises themselves thought that the

Associations Were To Help

in overcoming the difficulties arising from the severely felt shortages of means (financial and material) needed in their operations and with the changing regulations governing the economy. Such a general conclusion results from an observation of facts and opinions collected in the course of the studies. This conclusion refers in equal measure to voluntary and obligatory associations.

The expectations of enterprises pertain primarily to four spheres of activity: innovation, supply, planning and relations with the center.

In the light of the studies, we may expect that the enterprises will take advantage of the associations to increase their power of forcing their way through in the struggle for getting investment capital from central funds and that they will create their own (association) funds earmarked for these purposes. In all the constitutions of associations to which the enterprises studied belong, the possibility is envisioned of forming earmarked funds that would remain under the management of the association council. In practice these facts have not yet been confirmed.

Providing the enterprises with raw materials and supplies must be treated as a principal motive of the enterprises for joining voluntary associations. Experience from the first period of implementing the reform broke even the most resistant enterprises.

Almost 70 percent of the enterprises took advantage of help from the associations in getting raw materials and supplies covered by central distribution (requests through the association to the supply centers). Approximately

55 percent of the enterprises benefitted from the mediation of the association in supplying themselves with raw materials and supplies not subject to central distribution.

Approximately 46 percent of the enterprises confirmed the usefulness of the association in negotiating supply prices. Approximately 60 percent procured raw materials and supplies according to the association distribution list (the association was the receiver of allotments and purchases, then the association distributed the supplies among the enterprises). This was the case for 90 percent of the raw materials and supplies covered by central distribution.

Distribution within the associations was based on requisitions filed by the enterprises with a proportional allocation of raw materials in short supply. Attempts were also made to take into account priority tasks (operational programs and government orders). There were many facts, however, indicating that, as in central distribution, the tested auction method was used.

More than half the enterprises, regardless of type of production, expected association help in the areas of planning. These expectations were especially clearly evident in monopolistic enterprises (84 percent of this group), and to a much lesser degree in the others (35 percent in this group). In the opinion of the respondents, this help should depend on the association office supplying information about the availability of supplies. Lack of this information caused a situation where more than half the enterprises were not able to prepare a production-economic plan for 1983 in 1982.

Finally, the enterprises are inclined to treat the associations as organizations that increase their access to external institutions. About 70 percent of the enterprises studied believed that the association does not adequately support negotiations with banks, and more than half of the enterprises applying for relief from charges for the State Vocational Activization Fund did so through association mediation. Not without significance also was the fact that enterprises applying independently in 1982 to the Ministry of Foreign Trade for a hard currency write-off first met with unexpected difficulties, and then received a negative reply or a proposal of a smaller write-off than that of the other group of enterprises (obtained through the mediation of the Foreign Trade Enterprise).

A Commentary

on the association practice, observed from the point of view of the enterprises, requires a somewhat broader look at the conditions of enterprise operation in 1982 and 1983. The problem of associations is a fragment of broader investigations from which emanates the quite optimistic conclusion that enterprises have a great ability to adapt their operations to the environment. To what extent this adaptive capacity of the enterprises is elicited by their operations consistent with the precepts of the reform depends on the solutions applied in the system of managing the economy and the central economic policy.

Elimination of branch unions, according to the principles of the reform, was to have created conditions for the creation of various associations of enterprises on the basis of cooperative and economic ties. As might have been expected, practice has shown that this spectacular movement proved to be inadequate. Many factors were decisive in this, particularly the fact that enterprises operated in a branch system for nearly 35 years.

Previous economic reforms (the end of the 1950's, the Large Economic Organization) did not change these systems, limiting themselves to changing the names and to formal changes in the function of the consistently maintained middle rung (central administrations--unions--Large Economic Organization). Training the administrative personnel of enterprises undoubtedly had a real influence on the organizational shape of the voluntary associations formed.

A somewhat different view was represented by workers' self-management, which in many cases participated in, or undertook on their own initiative, preparatory work for the creation of associations in 1981. Almost all associations were organized in 1982, however, and therefore, during the time when activity of workers' self-management was suspended. The partner of the administrative personnel who could have restrained its tendency toward branching was excluded.

It is also worth remembering that workers' self-management was conceived in the reform as a protection of the independence of enterprises in the face of centralizing attempts of the founding organs. For it was expected, and properly so, as experiences of the Hungarian reform confirm, that directors of enterprises officially subject to their founding organs, would not be inclined to implement the basic principles of self-management. In this situation, we cannot be surprised at the universality of the enterprises forming associations and consulting on these undertakings with the founding organs themselves.

Observing this process from the sidelines, it is difficult to discern the form and scale of pressure exerted on the enterprises by the founding organs and the liquidated unions. Their interest and more or less direct participation in the creation of voluntary associations was a fact, however. The practice of transmitting to the enterprises sample founding agreements and constitutions of associations was quite universal. This can obviously be looked on as assistance in resolving new problems which confronted the enterprises, but...

Actually binding constitutions of voluntary associations, especially those uniting enterprises of the same competency, as a rule, are similar in content and/or formulation; founding agreements contain quite broad, basic parts of constitutions, and therefore, in agreement with requirements of regulations, the founding organ, in confirming the agreement, confirmed to some degree the constitution of the voluntary association. There were some cases where the founding organ arrogated to itself, contrary to the legal regulations, the right to confirm the constitution.

The interest of branch ministries in the conduct of branch economic structures emanates from the unaltered functions of the founding organs. Only certain methods of their operation were changed since traditional administrative dictates are resorted to less frequently. In carrying out the legal and generally applied supervision of enterprise activity, it is precisely the branch structures that are helpful.

Regardless of the truly psychological premises that form the tendencies toward associations of enterprise administrations, we cannot by-pass the objective factors, that is, those constituting the conditions of their operation at the time the unions were eliminated. From the written regulation, it follows that voluntary associations must serve the interests of the enterprises. The reality of voluntarism is expressed in this. Generally, the protection of these interests depends on developing a potentially great independence from the influence of the environment in which the enterprises operate, that is, from the center that governs the economy, the suppliers and buyers. From this point of view, we cannot expect any possible difference in the tendencies toward association of the administrative personnel and the self-managements.

Improving the position of enterprises by means of the association structure through contacts with the center is well-founded, if methods of discretion are used in the system of managing the economy. The fact that they were and continue to be used is evidenced by facts such as: relief with respect to charges for the State Vocational Activization Fund, increasing the coefficient governing an increase in the wage fund depending on increase in production, relief with respect to income tax, allocation of investment funds from central funds and hard currency from funds at the disposal of branch ministries.

The possibility is opening up for the working of the mechanism of secret bargaining, known from the past, which pertains today mainly to means. But we may assume that this is a new, nondictatorial form of the center's influencing the realization of production-economic assignments by the enterprises. Association pressure is less significant when the influence of the center has a clear and formalized character, as for instance, the agreements concluded in 1982 between the Ministry of Chemical and Light Industry and enterprises of this department, pertaining to release from charges for the State Vocational Activization Fund due to increase in market production.

The strong bargaining position of enterprises acting through mediation of an association is also an important gain in bargaining with suppliers or, even more important, with supply centers. In a situation of universal shortages of raw materials and supplies, that make complete realization of even priority assignments (operational programs, government orders, and recently we speak of "guaranteed priorities"), individual enterprises have little chance of obtaining the needed supplies.

Moreover, for enterprises, it is significantly easier to cede these matters to the association office. Regardless of the difficulties of making purchases in greater quantities (for several enterprises), it is more profitable. This was the basis for the hope that regional associations of enterprises would be formed that use the same raw materials and supplies (savings in transport costs). But branch traditions proved to be even stronger.

Belonging to associations also has the virtue that it helps in negotiating advantageous prices and conditions of supply. This is of special importance if the supplier is a monopolist. It also confirms the thesis that the economy should be treated as a system of vessels also connected in organizational structure. The existence of monopolists in some areas of the economy incites to the creation of monopolistic structures in other areas.

In this situation, the antimonopoly regulation that is being prepared may only create conditions for protecting enterprises and consumers from monopolistic practices, including among others, the formation of associations of enterprises. But this regulation should be treated as an element in the antimonopoly policy of the state, which should create, wherever possible, conditions for revitalizing the mechanism of competition. Competition means risk in economic activity, but it will also gain micro- and macroeconomic benefits if it is adopted. Our enterprises are not used to this, and this may be yet another reason for protecting them in the quietude of the association. Together it is easier and safer. In this situation every solution in the system of management that might favor this position will be eagerly exploited by the enterprises. This will not move us forward even a step toward the realization of the reorganizational goals set by the reform.

2950

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STUDY SPOTLIGHTS SUBTLE CURBS ON FIRM PLANNING AUTONOMY

Warsaw ZYCIE GOSPODARCZE in Polish No 33, 12 Aug 84 p 8

[Article by Witold Kasperkiewicz: "Independence and Life"]

[Text] According to the logic of the reform, the independence of enterprises in relation to planning is the basic field for the independence of an enterprise, a kind of gauge and guarantor of its economic autonomy. The first months of this year were characterized by numerous complaints about the "low quality" of the plans of enterprises as manifested by, among other things, the fact that the sum of those plans did not add up to the amounts written in the CPR [Central Annual Plan].

It is of course difficult to make an a priori judgment whether this attests to the shortcomings in the planning of enterprises, or in central planning. In theory both are possible: the final answer is provided in practice. Nevertheless, studies* on enterprise planning in 1983 bring valuable premises for the evaluation of the planning reality of independent economic entities.

From the perspective of 1983 it must be said that the subjectivity of enterprises in planning has been consolidated in the overwhelming number of enterprises studied. At the same time one can notice the tendency of some central institutions to issue commands to enterprises and to exact excessively developed statistical information and various reports from them.

The technical-economic plans of enterprises for 1983 were often made in the first half of 1983 (in 25 enterprises, that is, 50 percent). In 10 enterprises we noted that the final version of the plan was not formed until the second half of 1983 (July-September). It should also be mentioned that in three enterprises we were dealing with an "open" plan; in September 1983 the plans of those enterprises were still not finalized.

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Study of 49 enterprises carried out within the topical framework of MR III. 16 by the Institute of the National Economy of Lodz University, for the Institute of the Functioning of the National Economy at SCP15 [Main School of Planning and Statistics].

Analyzing the problem of the time limit of the final version of the plan in regard to the industries of consumer and supply goods, one must point out the fact that in enterprises producing supply goods the stability of plans was greater than in enterprises producing for the consumer market. In the second half of 1983, 9 enterprises from the sector of supply goods had actual plans, but only 5 enterprises from the consumer goods sector had them.

Hidden Commanding

In the context of the facts presented, two questions must be asked: Why in an overwhelming number of enterprises (35 cases) were the plans for 1983 being made during the planning period (including 10 in the second half of the year)? For what reasons did enterprises producing consumer goods in general have less stable plans than enterprises producing supply goods?

The fundamental reason for the delays in the construction of plans was the still existing insecurity and impermanence of the external conditions of management in relation to enterprises. This concerned in particular the following domains: supplies, raw and other materials, and spare parts (particularly, imported ones), ties of cooperation, the number of people employed (manpower shortages) and problems of exports to hard currency countries.

The disturbances appearing in these domains constituted factors limiting the independence of enterprises in the sense of materials and regulations, because they enforced the use of the distribution of deficit raw and other materials and foreign exchange, and to a certain extent, also the use of mediation in manpower supply.

The explanation for the delays in the preparation of current plans by enterprises producing consumer goods must be seen, besides the difficulties with supplies and manpower, in the adaptation by the MPCHIL [Ministry of Chemical and Light Industry] of the system of sui generis transactions between enterprises and the central management of the sector regarding additional production. This made it necessary to correct upwardly the current indices on the size of production. Among the enterprises producing consumer goods, which only in 1983 set their plans for 1984, as many as 18 out of 24 represent the MPCHIL.

In comparison with the practice of planning of previous years, the use of the classical tools of command to influence planning has become limited. The basic role in building plans was played by planning information flowing to enterprises from various sources (institutions). As feedback, enterprises sent a wealth of diverse information about their plans and the effects of their activities to many institutions--participants in the economic life. But it is significant that in the opinion of the management of enterprises, in 1983 the negative phenomenon of burdening enterprises with the obligation to prepare detailed information for various economic and administrative rungs and

institutions intensified. The demands in this regard--according to the opinion of the enterprises studied--were greater than in 1982.

Based on the analysis of the scope and sources of planning information and intervention in the building of plans by enterprises, one can formulate the following conclusions:

--the institutions which most often received information from enterprises on their plans were banks (49 cases), associations (38), treasuries (31), the Planning Commission (30), and parent organs (29);

--among institutions issuing information useful in the process of preparing the enterprise's plan, the following ones take the lead: parent organs (24 cases), associations (19), the Planning Commission (17), foreign trade enterprises (17), and commodity turnover units (13);

--among this information, the following items are the most important: the NPSG [National Socioeconomic Plan] for 1983 and for the years 1983-85 (19 cases), production included in operational programs (17 cases), the total supply for the enterprises' production (9), the supply situation with regard to raw and other materials and energy (7), the quantity and assortment of the exports (4);

--the most active intervention in the planning tasks was displayed by the parent organs (12 cases), banks (10), associations (8), the Planning Commission (3), commodity turnover units (2), organs of regional administration (2), foreign trade enterprises (2), and the office of the plenipotentiary for operational programs (1).

On the basis of the study we can draw the conclusion that directed tasks played a rather marginal role in shaping the plans of enterprises for 1983. The empirical material obtained suggests that eight enterprises received directed tasks and all the commands came from parent organs. They concerned production included in operational programs (4 enterprises), government orders (2 enterprises), production assortment (1 enterprise) and special production (1 enterprise). The problem of the scope of the command character of operational programs and government orders will be discussed later in the article.

Although these data point to the residual character of directed tasks in the building of the plans of enterprises, the answer to the question "Is the enterprise accountable for plan tasks in periods shorter than a year?" shows that some rungs of the economic administration (ministries, associations) make attempts at the hidden commanding of enterprises. This often assumes the form of so-called ministerial recommendations, which are nothing but a substitute for traditional commands. The management cadre justly believes that a proliferation of these "recommendations" constitutes a threat to the planning independence of enterprises.

From the comparison of data which present the range of the accountability of enterprises for the execution of tasks with the earlier cited cases of the application of the tools of command, one can draw the conclusion that sharp contrasts exist between them and that therefore there are no logical premises to judge accountability of enterprises from the execution of tasks. The information obtained shows that among the 49 enterprises studied, 28 (i.e., about 60 percent) were made accountable for the execution of the planned tasks. On the other hand, as we have already mentioned, only eight enterprises were actually directed.

In the light of observations, opinions and data, I believe that the explanation for the question of the disparity between the data presented lies in the manner in which the management cadre interprets the concept of the "accountability of the enterprise." In the understanding of some managers, the interest of various institutions in the execution of the planned tasks and in the financial situation of enterprises is treated as an attempt to make enterprises accountable. Therefore in their answers, the participants in the study presented as many as 15 cases of banks making enterprises accountable and 4 by the treasuries, although one knows that neither the banks nor the treasuries have the ability to apply classical sanctions for failure to execute planned tasks with regard to an enterprise. On the other hand, the refusal of credit when the criteria of "credit eligibility" are not sufficient can be interpreted as a kind of sanction for not fulfilling the bank's wishes with regard to the plan.

A Doubtful Premise

Operational programs and government orders were to be important solutions which were to eliminate the chief bottlenecks in the economy and to satisfy elementary consumer needs in the period when effective action of the market mechanism, due to grave imbalance, was impossible in many areas. They were also to be an important planning premise for enterprises.

Out of the 49 enterprises studied, 31 participated in 1983 in the realization of operational programs. A decisive majority of the enterprises studied was executing one or more than one operational program. On the basis of the evaluations formulated by the enterprises studied, one can draw the conclusion that these enterprises had no difficulty in obtaining an "entrance" to operational programs. Enterprises studied in general continued the realization of those programs which were started in 1982. We noted only one case in which an enterprise applying for participation in an operational program was rejected. We may also ascertain that in the community studied we found no application of the principle of effectiveness bidding with regard to an order of production included in an operational program.

From the aforementioned data it results that the tasks included in operational programs were obligatory only in four enterprises. This proved the observation made in last year's studies, namely, that the commanding of tasks in the majority of cases remained only the formal feature of the solutions adopted in

the system of operational programs. The reason for this was an insufficient supply of raw and other material needs to enterprises realizing operational programs. With relation to this, the parent organ which held the enterprise accountable for a specific operational program had no basis for applying sanctions in case of the unfulfilled realization of tasks. From this one can draw the conclusion of the illusion of an obligatory character of production tasks stemming from operational programs.

The introduction of government orders as an instrument of shaping a desired structure of consumer and supply goods was a system innovation introduced in 1983. Government orders constitute the basis for the making of contracts by enterprises for the supplies of specific materials and products; the party placing the order is authorized to do so by an appropriate organizational organ. By accepting a government order, an enterprise assumes the obligation of making deliveries of determined quantity and quality in time periods and on conditions determined by the contract, while the government guarantees the material supply specified by the agreement and an appropriate amount of foreign exchange for this production. Since the contract is made on general conditions, the enterprise has no obligation to conclude it. For this reason special incentives are provided for enterprises undertaking the production of particularly important goods; they consist of relief in income tax and PFAZ payments, and preferential credit treatment

Studies have shown that only 10 of the analyzed enterprises (20 percent) realized production included in government orders. The enterprises polled said that in eight cases the enterprise could refuse a government order, and in two cases it was "an offer that could not be refused," issued in a command procedure by the parent organ. It is worth noticing that effectiveness bidding as a way of placing government orders with appropriate producers, which would assure the best management of rare production factors, was not used.

Consumer production was the subject of government orders in four cases, purveyance of supply goods in the same number of cases, housing construction in one case and special production in one case. A decisive majority of enterprises realizing government orders (9) represented the view that accepting an order was advantageous to it. In one case it was stated that the effects of the order were neutral for the enterprise from the point of view of economic benefits.

In the opinion of the enterprises' management, the economic benefits resulting from the realization of government orders manifested themselves in the guaranteed supply of raw and other materials both domestic and imported (4 cases), in relief regarding income tax and PFAZ payments (3 cases), in the possibilities of increasing the wages of production workers, permitting a halt in the drainage of manpower from the enterprise (2 cases), and in allotment of foreign exchange (1 case).

The further success of government orders as a tool for removing basic bottlenecks in the economy depends on meeting several important conditions. First of all, the list of goods included in government orders should not be too long: it is enough to limit it to goods that are top priority. After all,

government orders must guarantee the supply necessary for undertaking production and possible foreign exchange allotment. Negative experiences resulting from excessively developed operational programs in 1982 are a warning against the harmfulness of similar practices in case of government orders.

Secondly, government orders ought to be placed through effectiveness bids based on the criteria of the material-intensiveness of production, quality of the product, and its price.

Thirdly, the manner of concluding contracts cannot violate the principle of the independence of the enterprise. The use of a dictate by the parent organs for the purpose of forcing enterprises to conclude a contract can turn government orders into a "foreign body" in the mechanism of the reform.

12270

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ECONOMIST URGES STABLE RULES, FREER REIN FOR PRIVATE SECTOR

Warsaw EKONOMISTA in Polish No 3-4, 1983 pp 665-667

[Article by Jędrzej Lewandowski, director, Department of Political Economy, Warsaw University: "The Place of the Private Sector in the New Economic System"*]

[Text]

I

In its microeconomic aspect the economic reform means changes in the operating system of enterprises. They apply chiefly to the socialized, and especially state-owned, enterprises whose operating model of disposing of the means of production they use has not been shaped in a manner satisfactory to the society. This aspect of the reform affects the private sector much less, because not much can and should be changed as regards the internal operating mechanisms of private production establishments. However, there also exists the macroeconomic aspect of the economic reform, which consists in changes in the conditions under which enterprises operate and hence also in the conditions under which the entire national economy operates. This aspect of the economic reform should also effectuate changes in the operating and development conditions of the private sector. The starting point for defining these changes is the determination of the place of the private sector in a national economy in which the principal part of means of production belongs to the socialized sectors.**

*An expanded version of a paper submitted at a conference of the Committee for Economic Sciences, PAN [Polish Academy of Sciences], and the Polish Economic Society (10 January 1983).

**Regarding the place of the private sector in the national economy, my reflections are confined to private farms, artisan shops and private commercial and gastronomic establishments. I thus leave out the problems associated with the economic activities of foreign legal entities and foreigners. These problems are of a special nature and thus require a separate analysis.

In Poland the private sector is represented most broadly in agriculture. According to GUS [Main Office of Statistics] data, in 1981 the nonsocialized economy accounted for 79.2 percent of the gross output [of agriculture]. It comprised nearly 3 million farms with an estimated total of 3,954,000 persons working on them full-time. In recent years both the number of these farms and that of persons working on them has been declining. This trend has not been uniform; it grew markedly in the past decade. In the crafts, employment was smaller: in 1981 it totaled 440,000 persons (including 152,000 employees) working in 242,000 artisan shops. Both the number of artisan shops and that of persons working in them have increased in recent years. These figures indicate that the scope of the private sector in the non-agricultural production sphere is much narrower than in agriculture. Thus, e.g., in 1981 the nonsocialized sector in industry accounted for 2.5 percent of overall industrial output and employed 5.7 percent of the total industrial labor force. The scope of the private sector in trade and gastronomy was even narrower: 12,000 stores and 4,000 gastronomic establishments with a staff of 49,000 (of whom about 8,000 were employees). With respect to this sphere of economic activity, both the number of outlets and their employment would be several times as large if we were to include the establishments managed on the basis of franchises. Although franchise-holders operate on principles similar to those of private establishment owners, they are included in the socialized sector in view of the nature of the ownership of the resources they operate. As in the artisan trades, in commerce and gastronomy too the number of plants and employment have been rising at a relatively rapid rate.

The figures presented above point to a generally small average size of private service and production establishments. For example, excluding apprentices, mean employment per artisan shop in 1982 was fewer than two persons (1.83). But in addition to the small size of the production establishments functioning in the private sector, the differences that also exist in this respect between agriculture and the non-agricultural sphere of the economy should likewise be considered. Thus while private farms, generally speaking, operate with the same manpower resources as the private establishments operating in the non-agricultural sphere, their material production resources are much greater. This concerns in particular the privately owned land resources as well as means of production whose value per person working on private farms is nearly twice as high as the per-person value of resources in the non-socialized sphere of industry. But these differences in privately owned resources do not detract from the general thesis that, to an overwhelming extent, for the entire private sector, the size of the average production establishment is relatively small.

This small size of the average private production establishment, while it impedes the attainment of a high labor productivity, provides favorable conditions for meeting important social needs. The production of particular goods, and especially of services, in relatively small quantities, by the private non-agricultural sector makes possible a flexible adaptation of their nature to the individual needs of consumers.

The demand for such products and services is not declining; on the contrary, it even is growing in measure with economic growth. For then many consumers

may prefer acquiring merchandise that is more expensive, to be sure, but is better adapted to their needs. Then the quantity of durable goods subject to maintenance and repair also increases. In agriculture, similarly, the relatively small size of the average private farm affords particularly favorable conditions for adapting production processes to differentiated and oft-changing production conditions. In private establishments the producer is the owner of the resources utilized, which makes possible a flexible adaptation to the differentiated needs of individual customers as well as to the oft-changing situation as regards supplies. This ensues from the special nature of the motivation engendered by the close linkage of incomes to turnover, as well as from the absence of anonymity of action and the presence of commercial competition. Private establishments are moreover capable of mobilizing certain reserves of manpower or raw materials which are inaccessible or relatively inaccessible to socialized sectors. They can moreover expand their services by utilizing premises that sometimes are small.

The importance of the functions performed by the private sector in agriculture, artisan trades and trade points to the need to provide favorable conditions for the operation and development of this sector. In particular, a condition for the efficient performance of such production establishments is affording to their owners the possibility of increasing their incomes derived from production activities. The interests of the owners of private establishments and farms in this field will be consonant with the public interest if the increase in their incomes is accompanied by an increase in their output owing to greater or more efficient utilization of their production resources. It is important that, within the limits defined by the legal norms, the owners of discrete production establishments should be able to expand their production resources, and that this process be regarded as a socially useful activity that deserves support. The creation of a favorable climate for the development of small industry requires rejecting the view that, supposedly, the fact of the existence of the socialist economy must denote the exclusivity of socialist forms of management, and that the thesis of the provisional nature of the petty-commercial private economy is of a general and universally mandatory significance. A proof that this thesis is not of general significance is also provided by the experience of the socialist countries in which the private sector is present to a greater or smaller extent in various spheres of the national economy. The durability of this type of management under socialism exists primarily because petty industry also plays an important role under this system of society and its functioning in the form of private production establishments based on the labor of their owners is consonant with general social interests.

Considering that public ownership exists in the form of both state ownership and cooperative ownership, the problem of linkages among the various sectors should be regarded as a particularly important one. These relations may be considered from the standpoint of the nature of the goods produced. In this field the situation in agriculture differs from that in the non-agricultural sphere of the national economy. Thus, e.g., in industry and trade the activities of the socialized sector, which is dominant in production processes, concern domains of production that are in principle different from the domains with which the private sector is concerned (and often are mutually

complementary). But this does not have to be a rule: for example, the (same) commercial services are provided by cooperative-owned and private stores or the same automotive services are provided by state-owned, cooperative-owned and private establishments. In such cases the joint provision of consumer services by socialized enterprises and private establishments results in a favorable competitive situation which, from the standpoint of public interest, counteracts the rise of monopoly situations. The danger of monopolization of the consumer market is harbored both in the socialized and the private sectors. It arises when a given production establishment acts as the sole producer of some particular kind of consumer goods or services. Economic practice provides many examples of the advantages accruing to consumers when given goods or services are supplied by a multiplicity of enterprises, including establishments operating on different principles [socialized, cooperative, and private ownership]—and such advantages precisely ensue from a multisector nature of the economy.

In the non-agricultural sphere it is not common for the different [state, private] sectors to produce the same goods or offer the same services. But in agriculture the situation in this respect is different. In Polish agriculture the private sector occupies the dominant position in the production of staple foodstuffs, and in principle it produces the same goods as those produced by the socialized sector. The production of the same commodities by different sectors represents the basis for the rise of competition between the farms belonging to these sectors. But in addition to competitive relations, relations of division of labor may also arise between multicommodity socialized farms (in which production processes are linked to capital-intensive technologies) and petty-commodity private farms with their more labor-intensive processes. This division may apply either to regions in this country that differ in their manpower resources or to a certain specialization of production characterized by, e.g., a nonuniform degree of the labor-intensiveness of production processes. This latter aspect of this division of labor provides a good foundation for the evolution of various forms of co-production between farms belonging to different sectors, which may contribute to the growth of overall management efficiency.

II

In addition to the above-described linkages between the discrete sectors, there exists another kind of linkages which refers to the exchange of goods produced by different types of production establishments. In particular, the socialized sector is increasingly becoming a supplier of the needed means of production to the private economy, and particularly to private farms. The growth of the types of production in which private producers engage hinges to a large extent on the nature of the intersector linkages occurring in this field. On considering various aspects of linkages of this kind, it has to be stated that the effectiveness of activities of the private sector hinges on the possibility of purchasing the needed means of production on the [free] market, as well as on the possibility of obtaining bank credit in the event of lack of the personal funds needed to finance such purchases. For only in the presence of an efficiently operating market for means of production as well as of a credit market, are producer goods available to the producers who can

utilize them most efficiently. Then, moreover, the productive activities of discrete production establishments result from cost-effective operation that allows for both the producers' own interests and the public interest. Possibilities of this kind are, of course, limited by the lack of equilibrium on the market for means of production as well as on the credit market.

The 1970s were, as known, characterized by a growing disequilibrium--particularly in the private farm economy--between the market supply of and demand for producer goods. Given this rising imbalance of the market for means of production, due to the impossibility of adjusting supply to demand, two possible solutions exist as regards the mechanisms for distributing such means to producers. The first is raising the prices to a level at which the market equilibrium is restored, and thereby assuring the unrestricted purchases of producer goods. The second is to maintain the prices at a fixed level and at the same time introduce particular forms of the allocation [rationing] of producer goods. It has to be stated that, in economic practice it was rather the second solution that predominated until the early 1980s. Economic policies avoided measures to attain market equilibrium by raising the prices of means of production, largely owing to apprehensions that manipulations of this kind would affect the production cost of agriculture. Such apprehensions are, of course, justified, because a rise in the prices of means of production entails a rise in the production cost of agriculture and thus intensifies unfavorable trends of foodstuff prices (with all the attendant perils to real consumer incomes). However, the policy of maintaining relatively low prices of producer goods should be accomplished by properly manipulating the supply of these goods rather than by keeping their prices rigidly at a level which does not assure the market equilibrium. In the latter case, the various methods used of necessity to allocate producer goods do not assure the flow of these goods to the farms that would utilize them most efficiently. This, in its turn, detracts from the overall effectiveness of production processes and promotes the rise in the production cost of agricultural commodities.

Seen from this standpoint, the expansion of the system for the allocation of means of production that occurred in the 1970s and was reflected in, among other things, granting explicit priorities to farms that undertook to specialize in particular types of production, has to be negatively assessed. Here it should be stated that these processes were linked to the command-economy model generally dominating the non-agricultural sphere of the national economy. For in such a situation, methods of managing the socialized economy through the allocation of resources also are applied to the linkages between that economy and the other sectors which comprise, in particular, the market for means of production for agriculture. From this ensues the conclusion that a departure from centralized methods of management in the socialized sector of the national economy is a prerequisite for the rise of proper linkages between socialized industry and the private economy.

But while pointing to the importance of the market [i.e., non-allocated or unrationed] forms of the flow of goods between the socialized and private sectors, it should be stated at the same time that, in the presence of a marked scatter of private producers, a positive role can be played by cooperatives that integrate and organize the market activities of producers.

Here, a positive effect can be also be produced by direct contracts between the socialized industry and private producers, serving to regulate the flow of goods between the two sectors. Linkages of this kind have a long tradition in Poland, particularly as regards the development of the contract system linking the private sector in agriculture to the socialized sector which engages in the processing and distribution of farm produce. The effectiveness of performance of the institutions established to streamline the production ties between the private and the socialized sectors counteracts to some extent their bureaucratization. This could also be counteracted by subjecting the activities of these institutions to monitoring by self-governing organizations associating private producers.

These reflections on the linkages between the socialized sectors dominant in the national economy and the private sector are based on the conviction that the public interest is promoted by the co-existence of these sectors in many fields of production, and also that the formation of correct economic bonds between these sectors is feasible. However, a prerequisite for this is the abandonment of the allocation and directive-type [command-economy] systems throughout the national economy. This is because such a reform of the operating system of the national economy would more or less equalize the operating rules of individual production establishments in their relations with other organizational units of the economy, and it would assure the needed stability of these rules.

III

As formulated above, the thesis that the presence of the private sector side by side with the socialized sectors in many fields of production is consonant with public interest does not, of course, mean that definite contradictions cannot occur between the private interests of producers and the general interests of the society. These contradictions refer to, among other things, the distribution of the generated values, which is influenced by both the existing price mechanisms and the non-price [i.e., tax-based] transfers [to the state budget] of incomes derived in various spheres of production. The use of prices as an instrument for shaping incomes applies primarily to agriculture. This is because the socialized purchasing machinery is the buyer of the principal part of the commercial output of many farm produce. The prices in this sphere, unlike the prices of most of the products and services generated by the private sector in the non-agricultural sphere, are determined by the [state] agencies especially established for this purpose. The level of these prices determines the incomes of farmers, both in the part used for consumption and in the part set aside for accumulation. A generally accepted principle in this field is that roughly equal wages for similar outlays of labor and similar skill levels should be assured for persons employed in various branches of the national economy. In the case of private producers, the level of the incomes they derive should also enable the producers who utilize most efficiently their production resources to expand their production facilities so as to attain the desired increase in output. The implementation of this just principle for the shaping of incomes requires the application of such price mechanisms for farm products as would prevent any excessive transfer of the values generated in agriculture to the non-agricultural

spheres of the national economy. A prerequisite for applying such mechanisms is the abandonment of the policy of stable food prices (despite the changes taking place in production cost) which restricts the possibilities for making the prices of farm produce more realistic and including these prices in the general mechanisms of the changes taking place in the price relations of consumer goods.

However, the size of the incomes derived by private farm producers is influenced not only by the prices at which farmers sell their products but also by the level of their production cost, which is primarily determined by the efficiency of utilization of the production resources they own. Hence also changes in the size of incomes depend not only on price mechanisms. They also, and perhaps mainly, depend on the manner of the allocation of the funds accumulated centrally for purposes of socioeconomic development, and particularly on the allocation of investment outlays among different fields of production. For the process of equalizing the efficiency of manpower utilization in both the agricultural and the non-agricultural spheres of the economy can and should occur not only as a result of the changes taking place in price relations but also and above all owing to the progress being introduced in the technical and organizational conditions of the production of agricultural commodities—a progress leading to the desired rise in labor productivity. The conditions for the introduction of this progress hinge, of course, on the magnitude of the disposable income of farmers. But they are determined even more by the quantity and quality of the means of production supplied to the market, which in their turn hinge on the growth rate of the industries serving the needs of agriculture. It can thus be stated that increasing the disposable income of farmers in itself is not enough unless it is coupled with a corresponding increase in the quantity of the means of production supplied to the market, as otherwise this increase in income would merely intensify inflationary processes without promoting the conditions for the introduction of technological progress on farms. In a socialist economy the principal decisions on the structure of investment outlays are taken centrally. The development of the industries supplying the needed production resources to farms hinges on the nature of these decisions and the manner in which they are adopted. It should be stated that decisionmaking on issues relating to directions of investment harbors a real danger of domination of the interests of concentrated industry over the interests of dispersed small farms as well as of dispersed consumers purchasing the commodities produced by agriculture. Hence, shaping such mechanisms of macroeconomic decisionmaking as would assure an adequate consideration of the development needs of agriculture, as well as of the living-standard needs of rural communities, is of great importance.

The ultimate value of the incomes spent on consumption and accumulation in the private economy is influenced not only by prices but also by taxation as a form of transferring the generated values to the state budget. In the case of farm producers, such taxation does not substantially affect the incomes derived. By contrast, in the private sector of the non-agricultural economy, taxes are a much more important factor in the process of income redistribution. The greater role of taxes in transferring to the state budget a part of the value generated in the non-agricultural spheres of the national

economy is evidenced by the following figures: in 1981 the nonsocialized sector of industry produced 45.5 billion zlotys of net output and paid 4.4 billion zlotys in taxes. In that same year, the nonsocialized sector of agriculture produced 500.9 billion zlotys of net output but paid a land tax of 7.8 billion zlotys. The greater role of taxation in the non-agricultural private economy as a form of transferring the generated values to the state budget is due to the much higher average income per owner of a production establishment in that economy. Owing to the different mechanism of the formation of the prices of goods and services produced by the private economy in the non-agricultural sphere, the incomes in that part of the private sector are higher than incomes on private farms. Hence also in this case the role of non-price [tax-based] forms of income transfer is relatively greater. However, in these domains of production, too, taxes should not reduce the consumption part of incomes below the level achieved with the same outlays of labor in other spheres of production. This is because experience shows that excessive taxation can effectively impede the growth rate of socially desirable forms of the conduct of production activities.

IV

The development of production in the private sector occurs, of course, at a non-uniform rate, which provides the basis for the differentiation of the incomes derived by the owners of discrete production establishments. Differentiation of incomes from production activity also occurs among workers employed in the socialized sector, but the mechanisms of that differentiation are different there. In particular, this is because private producers of goods or services are at the same time the owners of the means of production they employ, so that their incomes depend not only on the quantity and quality of the labor expended but also on the quantity and quality of the resources they own and their ability to manage them. Producers who derive higher incomes should, of course, participate to a greater extent in financing the expenditures defrayed by the state budget. By placing a greater burden on the producers who derive higher incomes, the taxation system thereby influences income differentiation so as to reduce the discrepancies occurring in this respect. But the exercise of this function by the tax policy in the private sector should not lead to the same degree of egalitarianism as applies to the incomes derived by the working population. This is chiefly because, by contrast with the incomes derived by the working population, the incomes derived from the sales of goods and services in the private sector are divided into the consumption fund and the accumulation fund. In this connection, the accumulation possibilities of different producers may differ quite broadly. This applies particularly to private farms. On these farms the liquid capital needed to expand production facilities is particularly substantial. Given the current level of the production cost of agricultural commodities, it is not possible to create a price system enabling all farms to obtain such surpluses as could be marked for expanding their production facilities. Thus, in such a situation the taxation system should, while remaining proportional to income, at the same time promote the growth of the establishments that attain a relatively high efficiency of management.

Studies of private peasant farm incomes point to a much smaller differentiation of consumption funds compared with the outlays of funds on accumulation purposes. The differentiation of these funds in the private sector is and must be greater than in the socialized sector. This is because the differences that exist in the consumption levels of the population linked to the private sector reflect not only the differences in the quantity and quality of labor expended but also differences in productivity as determined by the extent to which the labor force in the private sector is equipped with production facilities. Failure [of the state] to consider this would markedly hobble the accumulation tendency of producers, which would clearly be against the public interest. But while the tax system should allow for the need for a greater differentiation of the consumption expenditures in the private sector than in the socialized sector, it should not at the same time tolerate excessive discrepancies in these expenditures. Deciding the level at which these discrepancies can be considered excessive is not easy, of course. In general, it can be said that income discrepancies are excessive when the mood of the public does not consider them as justified by corresponding differences in the social efficiency of management of the privately owned production resources. This means that the problem is not so much the size of incomes as the means whereby they are derived. In such an interpretation, excessive incomes would be, for example, those that are not linked to corresponding (quantitative or qualitative) production effects. Excessive incomes of this kind may thus occur especially during periods of growth in uncontrolled price movements that result in the occasional amassing of considerable personal fortunes. It thus ensues that measures to counteract the rise of such incorrect phenomena in the differentiation of incomes should be explored not only, and not above all, by means of the tax system but also through new economic policies serving to restore the perturbed overall equilibrium of the supply and demand of consumer goods.

The problems associated with the regulation of incomes derived in the private sector are the subject of many discussions that often become highly emotional. Such emotions arise, it appears, not so much owing to the economic importance of these incomes, which can be transferred by means of the tax system, as owing to the social significance of the sometimes considerable attendant differences in material situation—differences that in the public mood are not sufficiently justified by the outlays of labor incurred and their effectiveness. It is precisely these considerations that endow with such great significance the question of the participation of the private sector in financing the expenditures earmarked for general purposes. Optimal solutions of contradictions of this kind should be sought in the system of decisionmaking with respect to the distribution of values generated in discrete spheres of the economy by representative bodies reflecting the opinions of different groups and constituencies. The related decisions should be a result of a compromise that takes into account both the interests of these groups and the general public interest.

V

To sum up these reflections on the place of the private sector in the new economic system, it should be stated that, first, the permanent position of

this sector under Polish conditions ensues from the role played by small industry in the national economy. Small industry can operate efficiently in the form of family-owned farms, artisan shops and private stores and gastronomic establishments.

Secondly, of major importance to the proper functioning and development of the private sector is the existence of such linkages between that sector and the sector dominant in the national economy--the socialized sector--as would, on the one hand, facilitate the influx of means of production to the production establishments that utilize them most efficiently and, on the other, assure an effective adaptation of the supply of the generated goods and services to the needs of consumers. Linkages of this kind can be provided only by a well-organized and smoothly functioning [free] market.

Thirdly, the directive-type system of industrial management was a factor hindering the formation of efficiently functioning market linkages between the private and socialized sectors. The supremacy of that system in the socialized economy generated a tendency to apply methods of directive-type management and allocation of producer goods to the private sector as well. Thus, a consistent and effective expansion of the methods of parametric management in the socialized sector is a prerequisite for the efficient functioning and development of the private sector.

Fourthly, tax systems should assure, on the average, more or less equal remuneration for similar outlays of labor in all domains of production, while at the same time giving preference to the domains that are particularly desirable from the social point of view. This also concerns the formation of centrally regulated prices (e.g., in the case of staple agricultural products), which entails the need to adapt these prices flexibly to changing conditions of production. At the same time, the scale of the differentiation of the incomes derived in the private sector should be greater than it is in the socialized sector--among other things, in view of the greater number of factors determining the incomes derived by private producers. Stability of the relations between the private sector and the state budget is of crucial importance to determining the principles regulating these relations, since such stability promotes a firmer longrange orientation of the directions of activity of individual production establishments.

1386

CSO: 2600/1222

ACCOMPLISHMENTS OF NATIONAL AUDIT AGENCY REVIEWED

Warsaw ODRÓDZENIE in Polish No 33, 14 Aug 84 p 3

[Interview with Lt Gen Tadeusz Hupalowski, chairman of the Supreme Chamber of Control, by Stanislaw Bednarski]

[Text] [Question] Mr Chairman, on 25 July 1984 the Sejm Presidium analyzed and evaluated the work of the Supreme Chamber of Control [NIK]. This evaluation was very positive. May we ask for a characterization of the most significant activities of the institute administered by you, and the activities undertaken in 1983 at the suggestion and on behalf of the Sejm?

[Answer] In 1983, NIK fulfillment of its legal functions for the Sejm underwent considerable development and intensification. We began an examination of 94 issues on Sejm Presidium orders, and as a result of direct coordination with Sejm committees and provincial ministerial teams. Information on the results of the most important supervisory work is systematically being presented to the appropriate committees. In 1983, NIK representatives participated in 365 committee sessions, and in 105 provincial ministerial sessions. NIK materials were presented or used at 206 of these Sejm organization sessions.

At the spring session, we presented the Sejm with three documents adopted by the NIK Council, specifically a report on 1983 NIK activities, comments on the Council of Ministers report on fulfillment of the 1983 national socio-economic plan, and an analysis of the 1983 national budget fulfillment. All three documents represent studies of a synthetic nature, which are based upon the audit results and concern various economic and organizational and administrative issues which arose last year. In addition, individual Sejm committees examined specific ministerial reports on plan and budget fulfillment presented by the appropriate NIK organizations. These materials are helpful to the Sejm and its committees, and facilitate a comprehensive analysis and evaluation of the work of the state administrative apparatus.

[Question] At the already mentioned Sejm Presidium session it was determined that NIK materials presented to the Sejm committees are very helpful to their work.

[Answer] Indeed. It was stressed that NIK materials were used effectively by the committees in their examination of particular issues and in local

ministerial activities; moreover, they were repeatedly helpful in the formulation of desiderata, and therefore served to intensify and fulfill Sejm audit operations. This type of evaluation gives the inspectors, advisors, and all NIK personnel great satisfaction.

[Question] What issues constituted the principal subject of audit activity?

[Answer] The audit undertaken by the NIK stressed and continues to stress the study of fundamental national socioeconomic problems. Through the audit, we attempted to stimulate the development of production in agriculture as well as in industry, to improve daily supplies of food and industrial articles for the populace, to utilize fully the opportunity to increase exports together with decreased imports. Our examination of the housing construction industry has aided in the administration's attempts at halting declining trends and at creating conditions essential for an improved infrastructure in the cities and residential areas. A significant number of audit studies were directed at improvement in the operation of transportation, maintenance of efficient freight shipments, guarantee of a suitable technical base for railroad rolling stock, and vehicle transport. An improvement in the social living conditions of the populace also represented one of our audit goals in the area of health care, protection of the environment, and concern for the daily affairs of our citizens.

We examined the influence of new economic and fiscal mechanisms upon the effectiveness and rationality of administration, as well as the process of fulfillment of the government savings and anti-inflation program, within the framework of the audits carried out.

As it appears from the above-mentioned, the principal subject of interest to the NIK is not exclusively the disclosure of irregularities but rather the search for ways and means to correct the audited activity, administrative improvement, and disclosure of reserves for continued development.

[Question] What can be said with respect to this about the state of the Polish economy, what is gratifying, what is worrisome, or what arouses concern?

[Answer] Last year brought perceptible economic improvement for the populace. To a certain degree this represents the beginning of emergence from the crisis. Nevertheless, the level achieved represents an improvement in comparison with the bad years of 1980-1982. However, we have not been able to restore production, particularly market and export production, to the level of the late 1970's.

Reform of the management system has greatly expanded the authority and real opportunities for independent activity by the management of the basic economic units. Until now, however, these opportunities have not been fully realized. The fact remains that we face many difficulties which are due to circumstances beyond our control. However, we must live and work under the conditions which exist. Therefore, we must seek ways to improve the situation independently. Under the new economic management system we cannot continue to wait for stimuli and instructions from the central government authorities.

[Question] Unfortunately, we are seeing such phenomena. What else is worrisome?

[Answer] Critical evaluation is necessary because many enterprises which possess the appropriate production capabilities have not undertaken effective measures to initiate secondary production of goods earmarked for the market. The initiative to manage recycled raw and scrap material and start up inactive projects still remains too infrequent. There are still numerous and scandalous cases of neglect of basic work law and order, and protection of property and output. We were also unable to solve the problem of improvement in output quality. In fact, in 1983 there was a continued decline in this area. During the past 4 years, the number of goods designated with quality stamps has declined by one-third. Losses caused by poor quality merchandise have risen. For example, in metallurgy and machine industry plants alone the loss related to reclassification to lower quality output totaled 6.5 billion zlotys in 1983, while losses from defective production totaled over 33 billion zlotys.

[Question] This happens under reform conditions?

[Answer] The basic economic reform premises were carried out consistently in 1983, but the individual mechanisms of the reform did not obligate the enterprises to express a significant amount of concern about economic efficiency. Therefore, a need exists for correcting certain aspects which are influencing the enterprises this year. In sum, however, the results achieved in 1983 and expressed in terms of growth of national income, increased scope of industrial production, and work output are favorable.

The development of production and supply of agricultural machinery and equipment can be viewed as a positive example of proper fulfillment of government orders. Production of such agricultural equipment as horse-drawn plows (by 122 percent), tractor-drawn cultivators (94 percent), grain seeders (63 percent), soil tillers (60 percent), and many others grew considerably. Continued 1983 improvement in the supply of spare parts for tractors and agricultural machinery also deserves mention.

Attempts to provide the population with basic food articles have also brought about the desired results. The government has staunchly protected low-income groups from the unfavorable effects of growing inflation.

[Question] How do you evaluate the degree of usefulness of NIK materials in the process of restoration of the national economy and improvement of its mechanisms?

[Answer] NIK post-audit information which has been systematically directed at qualified government organs has prompted the undertaking of appropriate decisions and activities designed to achieve a gradual improvement under existing conditions. We can anticipate that the modified economic management mechanisms will exert greater influence upon higher production, a better selection, as well as better quality goods.

Specific decisions were undertaken in the individual ministries and branches, under their own authority, regardless of the regulations of a systemic nature introduced by the Sejm and the Council of Ministers.

Following the audit on production quality, the Ministry of Metallurgy and Machine Industry initiated the development of criteria for quality control evaluation. It obligated the Center for Quality Control to include the manufacture of highly defective and deceptive goods, as well as newly initiated or modernized manufacture of goods under special supervision.

Comprehensive premises and trends for the modernization of the iron and steel industry for the years 1983-1990, designed to halt the advancing depreciation of metallurgical production assets and to provide repair services, were developed following inspection of the utilization of the iron and steel industry production capabilities. The Ministry of Metallurgy and Machine Industry also initiated activities designed to improve the adaptation of metallurgical production to the needs of its consumers.

The Ministry of Chemical and Light Industry implemented obligatory quality control on a series of products, and management of whatever scrap, fabrics, and leather goods were left.

Examples of effective use of NIK post-audit proposals and recommendations are numerous. That, however, is beside the point. I would like to stress that we are demanding that very specific and objective attitudes be adopted with respect to NIK post-audit reports by the ministers, directors of central organs, and by provincial governors. Superficial and insincere responses are being returned for renewed examination of our programs and presentation of specific timetables for the implementation of improvements resulting from audit proposals.

We have adopted the principle that we can only consider the audit as completed in those studies which have resulted in positive and permanent changes in the audited areas. The audit results and remedial measures undertaken by the ministries are being systematically discussed at meetings of NIK heads and interested ministers and directors of central organs.

[Question] You mentioned initially the satisfaction which NIK personnel get from recognition for their work. Their contribution also consists in the fact that the NIK has considerable authority, and its work has the special recognition and support of the public. NIK personnel are viewed as great specialists and as individuals with impeccable ethical standards.

[Answer] The NIK audit tasks are being carried out by approximately 1,100 primary level personnel. We sense certain problems in hiring new employees, linked with the high professional and moral standards and with the hard working conditions involving long periods of official travel and stressful work. Practice indicates that in order to shape certain attitudes and develop the necessary skills, each newly hired employee needs 2 to 3 years of training in order to be prepared to perform his audit work independently.

A majority of the personnel are long-time professionals with high qualifications. The work entrusted to them is carried out conscientiously and with a great sense of responsibility and commitment.

[Question] One final question: What very important issues is NIK concerned with currently?

[Answer] In accordance with Sejm Presidium recommendations, the NIK audit plan for 1984 includes topics covering the most important national economic problems in the second year of the 3-year plan. We are concentrating on examining the success of undertakings aimed at continued restoration of market equilibrium and extricating the economy from the crisis. We anticipate that, much the same as now, the audit results will be utilized during the course of the current work of the Sejm and its commissions, the State Council, Council of Ministers, and the provincial people's councils.

Within the audit plan, we give special consideration to studies concerning the fulfillment of tasks resulting from the government savings plan, and to problems regarding operation of the modified economic reform mechanisms.

Subjects of particular interest to us include rational utilization of work resources in the basic economic units; efficient linkage of the wage system with output, quality production, and improvement in economic efficiency; accuracy of price determination by the socialized economy units; the basis for subsidies and their utilization by the enterprises; and operation of the tax system of the socialized economy units. We are examining industrial, food agriculture, construction, transportation, foreign trade, and maritime economy problems with particular intensity.

In addition to material production, our audit studies include administrative and economic activities concerned with meeting the most widely understood needs of society in health care and social and educational services.

[Interviewer] Thank you for the interview.

12229
CSO: 2600/1185

CONTENTION BETWEEN CENTRAL EXPORT AGENCIES, MANUFACTURERS

Warsaw POLITYKA in Polish No 29, 21 Jul 84 supplement EKSPORT-IMPORT p 19

[Article by Elzbieta Nosiadek, staff member, UNIVERSAL Foreign Trade Enterprise: "Should We Be Counting on the Central Export Agencies or on Ourselves?"]

[Text] Foreign trade enterprises have been presented with the task of increasing the export of products from the electrical and machine-building industry to capitalist countries this year by 25 percent. Besides the necessity of paying off debts this arises from, among other things, the fact that in the structure of Polish exports there is a disturbing trend toward increased participation of farm and food raw materials and products with a concurrent drop in the share of industrial products.

Unfortunately, foreign trade enterprises which handle the export of a wide assortment of products of the electrical and machine-building industry, particularly those with a high degree of processing, come across many obstacles, e.g., from suppliers (i.e., from manufacturing plants).

It is commonly known that the part of the reform which concerns foreign trade reaches factories at a very slow pace. Proof of this can also be found in the course of the discussion which took place at PIHZ [Polish Chamber of Foreign Trade] and which was summarized in a piece entitled "Exporters' Problems" (POLITYKA [supplement] EXPORT-IMPORT No 6, 1984). There we read that plants which supply goods for export are critical of the "central export agencies for their lack of clearly defined export strategies. The shortcomings in this regard manifest themselves in the form of inadequate incentives for manufacturers and exports of highly processed products which, according to old hands from the industry, contributes to the preservation of an unfavorable export structure."

I believe that the time has come for concretizing these very generalized opinions, which are often expressed by representatives of the industry.

It is possible to agree in part with the viewpoint that export strategy is not clearly defined. However, in view of the crisis in which our economy finds itself, and at the same time the necessity of not only maintaining but also of increasing exports, it is difficult to define such a strategy unequivocally.

A precise establishment of export strategy would be very advantageous for manufacturers because according to the old way of thinking, they [manufacturers] are counting on the fact that this would be followed by a so-called producer goods import, which would be carried out by the central export agencies, naturally at their "own" expense. Manufacturers do not treat foreign-exchange allowances as a basic source of financing such import. On the one hand, one of the advantages of allowances is that the manufacturer may make purchases, usually small purchases abroad owing to which production is not interrupted due to a lack of some spare part. On the other hand, however, manufacturers are not striving to increase allowances by way increasing exports since they are aware that they will receive basic raw and other materials from the central export agencies.

As far as inadequate incentives are concerned, it was determined during the discussion at PIHZ that "the shaping of a system of wages which would to a greater extent award bonuses for export production lies currently solely in the hands of enterprises." Therefore, the central export agencies cannot be blamed for the fact that as a result of inadequate incentives "they contribute to the maintenance of an unfavorable export structure."

However, wages are not the only incentives for export activity. What matters here is primarily the participation of industry's representatives in conducting direct canvassing on foreign markets.

In spite of widespread myths, a foreign trade enterprise worker does not sleep with his travel bags. Every trip must be carefully prepared and must bring concrete results. Industrial representatives nearly always participate in canvassing trips of foreign trade enterprise workers and frequently there are more of them in a delegation than there are foreign trade enterprise representatives, especially when technical advice is required. In the majority of cases, direct contacts with consumers change the perception of industry about them and make it possible to solve problems involving quality. However, there is also a certain number of manufacturers who are demanding quite loudly participation in direct canvassing but who for years have not done a thing to bring about changes in production to satisfy the changing demands of importers arising from technical progress or current fashion. In effect, this leads to small contracts which will usually not be renewed. Manufacturers who carry on export activity only to be able to go abroad should not participate at all in canvassing trips. A trip abroad may be one of the reasons for a manufacturer's interest in the field of exports, but not the only one.

Prices and costs are a separate problem. Domestic prices on industrial products have risen, frequently more than fourfold, since 1980. Unfortunately, it is necessary to make manufacturers aware that this occurred primarily during a period when the majority of capitalist countries had also found themselves in a crisis situation and the obtainment of any kind of contract price increases had become totally impossible, and frequently it was necessary to offer various kinds of rebates in order to maintain trade relations of long standing. Second, even in the most favorable economic situation none

of the foreign consumers is going to accept price hikes several hundred percent which would fully ensure a satisfactory profit for our export of products from the electrical and machine-building industry. Of course, as a result of domestic price increases which have continued for 3 years, the export of many products of the industry under discussion, which thus far has been very profitable, has ceased to be so.

Enterprises often demand that economic conditions be made more realistic. However, this is not a road which leads to a rational account of export profitability. It is possible to carry on discussions about the parameters of this account, but they cannot be arranged in such a way that every cost level established by enterprises could be accepted. From practical observations, it appears that enterprises should look less to the central export agencies and make more use of their own capacities to lower costs, to change the structure of production and to finance imports. This type of activity can make the mechanisms introduced by the reform function more efficiently.

9853

CSO: 2600/1186

DECLINE IN EXPORT OF COMPLETE INDUSTRIAL PLANTS NOTED

Warsaw RYNKI ZAGRANICZNE in Polish 26 Jul 84 p 8

[Article by Aleksander Jung: "Are the Days of Complete Industrial Plant Export Over?"]

[Text] At the end of the 1950's and the beginning of the 1960's we developed our export activity in complete industrial plants. We are talking here about certain kinds of plants, in the design, delivery and setting up of which we were experienced. These plant types included sugar refineries, yeast plants, sulphuric acid plants, cytoconcrete mills, plywood factories, silica brick works, foundries, forges, machine plants, so-called small plants, container works, etc. They preceded the initiation of the experiment to service construction with prefabricated structures, inasmuch as several of them were delivered ready-to-go quite early. Many forms of cooperative partnerships were also begun. They made for good economic propaganda with regard to our opportunities in socialist and developing countries, as well as in the countries of western and southern Europe.

The tempo of building and the quality of our plants, as far as the average technical standards was concerned, permitted us to become truly competitive as we utilized government investments as well as we could by making our efforts more efficient. A number of construction enterprises emerged as so-called general deliverers who had considerable experience and trained and efficient staffs.

In the 1970's, we continued the export of completed plants but at the same time we did not take advantage of the opportunity to raise the technological and organizational level of our operations by going over the knowledge and experiences of Western deliverers of completed industrial plants to Poland. The general deliverers of plants remained on the sidelines in the extensive investment imports of those years. Import decisions were made without regard to possible future advantages in the area of industrial plants. Their export, both difficult and troublesome, had ceased to be a concern to our economic authorities to the extent that it was in the 1960's. The development of appropriate technology, organization and sales methods for plants built by specialists in foreign trade and industry was not undertaken in the second half of the 1970's, and the task was sent to the Planning Commission.

The years 1981-1985 are even less beneficial to the export of complete industrial plants. The creators of the economic reform do not recognize the existence of this Polish specialty. The mechanisms introduced, although generally fitting, do not take into consideration the specifics and individuality of this kind of export, which is respected by all countries as the best composite form for the sale and transfer of technology. The lack of cooperation, domestic prices, hard currencies, and material supplies for a long-term cycle necessary to implement industrial plant exports is worsening the chances of fulfilling contracts already concluded, at least as far as their deadlines and quality are concerned. This situation, taking into account the recession and difficult market conditions, has to worsen the results achieved. The export of complete industrial plants under the management of just the Ministry of Metallurgy and Machine Industry will decline in the 1981-1985 time frame in relation to 1976-1980, i.e., 35 percent or 400 million rubles with the USSR and 90 million dollars with the West.

The foremost industrial plant exporter, Polimeksie-Cekopie, saw its share of total plant exports drop from 42 percent in 1979 to 23 percent in 1983. If this exporter had been able to maintain a yearly increase of 3 percent from 1979, the value of its 1989 exports would have amounted to 20 billion zlotys. As it turns out, the exporter will earn only 6 billion zlotys. Contracts would have been worth 50-60 billion zlotys, and not the 6 billion that they will be worth.

The recession in the world economy has certainly had an impact. However, since our portion of the total market is minimal, we should not link our substantial decline to this phenomenon.

The subject of complete industrial plant exports was fortunately taken up by Task Force Eight of the Economic Reform Commission and we can only hope that this move will become the catalyst to accelerate the making of necessary decisions and passing of necessary laws on the one hand, and intensified canvassing and agreements activity on the other.

One might be able to make a certain prognosis regarding these exports for the years 1986-1990. Based on a careful evaluation of the potential of just the general deliverers of the Ministry of Metallurgy and Machine Industry, it seems that the majority of exports to the USSR for the period mentioned could well amount to 1.2 to 1.5 billion rubles, while those to the West could go up to 300 to 400 million dollars.

We also have to take into account the fact that Poland has several large, well-equipped production plants not organized for large-scale serial production processes, but for individual job orders associated with the construction, reconstruction and modernization of investment plants. A reduction in exports and national investment credits prioritizes the utilization of this potential, especially in light of the need to make interest payments and pay off our debts, including those to the socialist countries. The sale of a complete plant permits the simultaneous export of many components and services which individually would not be of interest to consumers. Surveys made in the 1960's and 1970's showed that only 30 to 40 percent of the total value of a plant could be sold as individual items.

The delivery of a completed industrial plant, in order to be of interest to the consumer, has to satisfy his requirements completely. It is understandable that we have been observing in recent years more composite deliveries and an increase in services. This means that the structure of our branch bidding and its technology and comprehensiveness have to change. Here we are talking about the efforts of an international entrepreneur rather than those of a producer of individual components. In order to deal with this situation, our structures have to be correspondingly free and flexible. For this reason, we are discussing the need for certain laws which simplify the settlement of accounts, effective evaluation, balance of payments linkage, price funds (e.g., risks and technical progress), currency write-offs for the deal's participants, reduced tariffs and priority treatment with regard to the receipt of supplies over a long-term period (in order to fulfill contracts), etc. We also need to consider the most effective organizational solutions to industrial and foreign trade orders.

With regard to our trade and technology, we will need many years to catch up. With a realistic approach and the creation of the proper conditions for activity, we have the chance to utilize our existing potential. Independently of national legislative, technical and organizational efforts, this requires very intensive operations in the marketplace.

With regard to treaties and plan agreements with socialist countries, we should strive to achieve an understanding on the number and makeup of deliveries for the 1986-1990 time period, as well as the signing of contracts for deliveries in 1986 itself before the end of this year, or no later than the first quarter of 1985.

With regard to countries of the Third World, we have to step up our canvassing, both on the governmental level and between firms and enterprises which pay attention to current markets and certain diversification of import requirements, compensation, and, finally, a restrictive and selectively applied credit policy.

In Western countries, beyond our desires to be cosuppliers and coproducers, we have to take considerably more account of the fact of our indebtedness and the resulting possibility of cooperating with several banks in these areas, i.e., cooperating in a manner which will eventually allow the banks themselves to participate in the resulting long-term benefits.

As in many other areas, no one is going to make these issues simple for us. Only proper preparation, persistent canvassing and consistent operations—calculated with regard to real effects over the long term and not to speculative, immediate gains—can lead to the proper results and answer the question posed by the title of this article in a negative manner.

12247

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POLICY FAILURES, CENTRAL PLANNING HINDER INFLATION FIGHT

Warsaw BANK I KREDYT in Polish No 4, Apr 84 pp 113-118

[Article by Wacław Wilczyński, director of the Institute of Political Economy, Economics Academy, Poznań: "The Odds for the Economic Reform's Success in the Fight Against Inflation"]

[Text] 1. The Nature of the Problem and Some Fundamental Questions

For 2 years the reformed economic system has co-existed with growing inflation. In a rather widespread popular view this fact discredits the reform which, it was hoped, would succeed in the fight against inflation. To blame the reform of the system for the present situation is, of course, simplistic if not outright mistaken. The real culprit, namely the current socioeconomic policies, especially wage policies, can be seen with the naked eye. However, this does not warrant an uncritically positive assessment of systemic solutions. Regardless of the errors of current policies, the key answer concerns the question of whether the provisions of the economic reform have had an anti-inflationary effect and, if so, of what scope and in what sectors of the economy. It is also important to ask whether the reform has had a chance to neutralize the inflationary consequences of current policies. Perhaps these questions overly generalize the problem, since it can be posed only in conditions of "uni-segmental" inflation that can be fully described as simply the rate of inflation. Polish inflation, however, is a "bi-segmental" phenomenon where, in addition to the semiofficial rate of inflation, inflationary gap plays a principal role. This gap, a well-known phenomenon in the socialist countries, has been transformed in Poland in the last few years into an inflationary overhang, which no longer represents ordinary personal savings or pre-payments for automobiles. The overhang defines a size of demand that has been forcibly postponed and remains unsatisfied not just by the specific types of goods, but globally. The currency has changed from "warm" into "hot" money in a feverish pursuit of immediate investment [in a commodity] that would spare the owner from further depreciation. The emergence of the inflationary gap and its transformation into inflationary overhang may also take place in conditions of global equilibrium between personal income and spending if partial imbalances in important segments of the market become too great. An important feature of inflationary overhang is the appearance of a parallel, "black" market in many categories of goods which renders the

"official" rate of inflation completely misleading. Thus, the concepts of inflationary gap and inflationary overhang are not really unequivocal, if only because individual market segments cannot substitute for, and are isolated from, each other. It would be a mistake to try to distinguish inflationary gap from inflationary overhang on the basis of numbers, or to define a threshold level below which inflationary gap can still be deemed not to have been transformed into inflationary overhang. Inflationary overhang cannot be liquidated without closing the inflationary gap. A reduction in the inflationary overhang will not transform it into a "calm" inflationary gap because consumer psychology has become ultrasensitive to market imbalances.

In general, the subject of this article concerns the question of the ability of the reformed economic system to counter the growth of inflationary gap and to function so as to liquidate inflationary overhang. The article does not deal with the problem of halting inflation in general, in all of its aspects. This reservation is important insofar as the existence of a given rate of inflation is a function of monetary policy and does not depend on the anti-inflationary character of the system. It may be desirable to maintain a given rate of inflation in order to stimulate expansion of production--a principal way to overcome the crisis. The economic system should not possess counterexpansionary tendencies. However, while favoring expansion, it should not have inherent inflationary qualities that are independent of expansion. If this condition is satisfied, the whole problem becomes one of central economic policy, especially monetary policy.

One must not neglect to answer the frequently asked question of whether and under what conditions it would be possible to reverse the trend toward devaluation of national currency in comparison with the currencies of other socialist countries. The answer is simple. Everything depends on improvements in the effectiveness of the national economy, the social costs of its functioning, and trends in the costs of achieving unit results. If these indicators continue to be worse than our neighbors' then the process of devaluation of national currency cannot be stopped.* A genuine breakthrough in effectiveness is necessary. And this is precisely what should be expected of the economic reform.

In the internal socioeconomic policies of the socialist countries one should distinguish between their "quantitative" aspect, which involves working with, and a direct stimulation of, economic indicators, and "qualitative" aspect, which involves the determination of social conditions of production, i.e., implementation of certain systemic solutions. In the former case one deals with measurable effects, but in the latter a direct assessment of any decision or non-decision is much more difficult. This happens especially when the already existing systemic conditions of production are "perfected," "modified," or made "more concrete." Therefore, it is extremely important to formulate the purpose of systemic solutions correctly, and to decide on

* See W. Wilczynski, "The Influence of External Conditions," *ZYCIE GOSPODARCZE* No 39, 1983.

the criteria of "goodness" of these solutions. This applies to other "qualitative" decisions as well, especially those which modify existing solutions.

It is necessary to distinguish between the essence of the economic system and the system policy at any given moment. A correctly designed economic system can have its worth diminished by excess of details built into it. Such details may change the essence of the system by attempting to perfect it or by paralyzing economic actors. To see an analogy in the trend to make the beautiful, pure Gothic church architecture more "baroque" is irresistible; it may perhaps be extended further to include the ensuing counterreformation.

If we are to analyze the possibilities of closing the inflationary gap, with the help of economic reform, through a reformed economic system, we must not limit ourselves to an assessment of the essence of the system, its main premises. It is equally necessary to appraise two aspects of economic policies mentioned earlier, and especially some hard-to-measure consequences of "modifications" in the system, both formal, accomplished by appropriate legislation, and informal but similarly effective methods.

It is extremely important to identify the systemic and political-economic conditions necessary to close the inflationary gap. The liquidation of the second "segment" of inflation is the first condition for the economy's return to normal functioning. Large market imbalances cause such high losses, a consequence of the impossibility of utilizing economic potential to the fullest and the irrationality of individual economic behavior, that any view which neglects these facts must be regarded as highly dangerous. Better a higher rate of inflation coupled with market equilibrium than a spuriously low inflation rate accompanied by the inflationary overhang that disorganizes economic functioning.

2. Systemic and Extra-systemic Sources and Aspects of Inflation

The decoding of the monetary mechanism and the use of currency in the system introduced in the USSR in the early 1930's, and in other socialist countries at the beginning of the 1950's, is of key significance for the explanation of inflationary phenomena and processes in socialism. It was believed in those years that treating the national economy as if it were one enormous enterprise with many divisions, despite the formal existence of separate enterprises, as well as concentration of all decisions at the highest level would make complete control of monetary processes possible. Setting the parameters of monetary accounts from above was supposed to restrict the role of money to an instrument of accounting for the material processes shaped on another plane, outside the market. The purpose of the so-called ruble-control was economic activity to carry out set goals rather than to stimulate autonomous choices. Theoretically, full sovereignty of the state over the money flow was thus assured. The danger of inflation seemed completely unrealistic under a materially and financially balanced central plan. It was often thought that growth of labor productivity should be reflected in price decreases

rather than wage increases. However, it was quickly discovered that this ostensibly perfectly balanced, equilibrated system begins to "leak," and that, contrary to assumptions, money actively influences economic units. The leaks have occurred mainly as a consequence of financing which anticipated future results, was extended ahead of planned schedule, or followed the schedules in spite of delays in material effects. The renewed activation of money in the running of the enterprise economy was due to the great attractiveness of the monetary aggregation of material quantities and real processes. "Synthetic" indicators, such as global production and value of deliveries, became ever more authoritative and eclipsed the real content of economic outcomes. Thus, the monetization of the goal function was repeated on lower levels of the economic system. Money, dethroned together with the market system, returned to the economy by the back door. This was dangerous because gross results were being maximized in contrast to net results, i.e., profit as an excess of results over costs. The use of so-called cost prices, typical in accounting inside multidivision enterprises but by definition useless to measure results, encouraged maximization of results through cost increases and other kinds of outlays. Gross results followed from the aggregation of costs, which were uncontroversially regarded as an expression of the created value.

Thus the system lacked a barrier against inflation in the form of interest in lowering material and labor costs. Wage incentives were tied to gross rather than net results, i.e., the actually achieved surplus of results over costs. As economic growth programs became increasingly ambitious, wage policies became ever softer. Great development projects compelled the use of effective material incentives. In this situation, wage incentives became relatively more costly, despite low absolute initial wage levels.

The processes described above took place in a climate created by the cavalier slogan of constant prices in the socialist system. Consistent application of this principle had to lead to an inflationary gap, in spite of attempts to balance personal money income and expenditures through periodic, broad price increases. Prices for non-basic goods were also raised. Such sectional price changes for these goods gradually distorted the price structure but failed to bring about the desired redistributive effects.

In light of this historical review it is possible to identify the principal sources of inflation in a centralized economy. The first one exists in the economic system which is conducive to inflation by giving preference to various forms of gross results produced by the maximization of outlays that are automatically regarded as creating value, an expression of work directly beneficial for the society. The inflation-causing character of this system follows from the absence of an anti-inflationary microeconomic barrier, lack of regard for surplus product and the excess of results over costs. There is no mechanism in this system that would verify the true cost of outlays. It is also a reflection of a contradiction between the formal existence and the lack of real existence of enterprises. Useless categories and methods, which are appropriate for internal accounting in a multidivisional enterprise, have been used to stimulate and measure results

of enterprise activity. Such a global-scale enterprise has considerably exceeded its optimum size, causing an inevitable increase in management costs accompanied by lower efficiency in producing results.

Outlays which anticipate the plan create another significant source of inflation. A high degree of centralization in making investment decisions is favorable to the characteristic anonymity of such decisions and obscures material responsibility for their effectiveness. The link between the enterprise balance sheet and the investment process is severed. In such conditions investment credits easily become a form of inflationary printing of money. Operating credit also acquires similar characteristics since it finances unprofitable prices (instead of direct budget subsidy). This made it possible for many years to maintain a formally balanced state budget, outstandingly obscuring the real situation.

The bases for the inflationary development of the Polish economy were thus created in the 1950's, although it rapidly became severe only toward the end of the 1960's and in the 1970's. It has now reached a critical point. A higher rate of investment and accumulation, and the comparatively high social costs of functioning and growth of the economy, as contrasted with countries that have better traditions of efficiency, were a factor which quite early began to cause a worsening of Poland's situation in comparison with some other socialist countries. For many years restrictive wage policies that assumed and amortized the economic burdens described above have been acting as a brake on inflation. However, decisions made at the beginning of 1971, especially those which concerned a freeze of prices for basic goods and considerable extra-systemic wage increases, started a process whose effects can be observed today. During the latter 1970's the inflationary gap, a "calm" one until then, was transformed into an overhang which has exerted unprecedented pressure on the market. The well-known course of events caused this process to undergo a violent acceleration after August 1980.

This analysis of the development of Polish inflation makes it obvious that regaining control over this extremely dangerous process calls for taking into account an entire spectrum of synchronized endeavors and means. The reform of the system occupies a special place among them. At the beginning of 1982, an attempt to liquidate the inflationary gap through large price increases accompanying the implementation of the reform was unfortunately unsuccessful.

The main responsibility lies with extremely soft socioeconomic policies, especially in connection with wages.

Many weaknesses, inconsistencies and lacunae pointed out in earlier debates were also uncovered by the new economic system. It is now time to devote some more attention to it.

3. Economic Reform as an Instrument in the Struggle Against Inflation

The prospects of the new economic system in the struggle against inflation depend on the degree to which it is different from the preceding system, its scope of influence and its consequences in seemingly remote spheres. The problem consists, among other things, in whether the system is able to compel rational behavior and a proper relationship between benefits and costs in spheres that are not directly covered by it. This is why the notion of systemic reform as a profound change in economic relations, in the functional aspect of socialist relations or production and social conditions of production is so important. This requires an absolute stand against the interpretation of the reform as a mere modification of instruments of control by the center which does not change economic relations or the manner and style of management.

Hopes for anti-inflationary effects of the economic reform have been tied above all to the return to microeconomic rationality, consistent application of the principle of the "three S's," the principle of financial responsibility of the work crews, putting in place a strong mechanism for verification of production both by the market and by other institutions independent of the producer. These hopes are tied to the change of the function of enterprise goals from dubious indicators to profit understood as the maximization of the difference between benefits and costs. Discontinuation of soft financing by the center should be an indirect consequence of the systemic reform as the role and importance of enterprise investment outlays increase. The effect of the reform should also include backing away from prices that fail to keep the market in balance, prices that do not react to changes in supply and demand, and discarding the doctrine which has accepted imbalances as virtually a normal phenomenon, negligible from the point of view of rationality and effectiveness. Finally, consequences of the reform should include greater wage differentiation, not only as an expression of differences in the efficacy of production but also as a condition for further expansion.

The form and the course of implementation of the new economic system, as well as its modifications, have so far failed to provide a reason for excessive satisfaction with the progress made in the struggle against inflation. These endeavors have not yet resulted in a fundamental breakthrough in the ways of managing or the entirety of economic relations. The relatively soft, extra-systemic financing still continues, despite slender expansiveness of enterprises. Attempts to achieve a necessary breakthrough in the treatment of profit or understanding of prices have not met with success. There is still no respect for the surplus of results over costs. The institutional setting (especially branch ministries) has been left practically unchanged; its actions are causing a renewed transformation of autonomous choices by enterprises into actions adapting to "superior units." Increasingly more intense management activity on the part of parent units inevitably leads to the limitation of initiatives from below and the elimination of financial responsibility; it makes it impossible to apply fully the principle of self-financing. Despite the positive assessment of enterprise investments there is an increasingly clear tendency to increase the share of investments by the center which

have well-known inflationary character. Concerning inflation, the structural inertia of the economy is not a negligible issue. The point concerns not so much great structural projects as a lack of visible influence by the reform on redirecting productive potential to take advantage of gaps in the market.

Thus we are dealing with an insufficiently coherent system with a limited scope of influence that is far from fulfilling hopes for success in countering inflation. The reform resembles more a modification of instruments of central guidance than the proposed change in economic relations capable of achieving a breakthrough in the economy. I believe that these shortcomings of the reform, including its anti-inflationary aspects, have been caused to a large extent by the continuing vagueness and incompleteness in some important facets of the economic theory of socialism and the methodological principles of constructing the system.

Thus there is still no clear answer to the question of whether the national economy should be regarded as one great multidivisional enterprise or as a centrally directed system composed of separate, autonomous economic units. Related to this is the problem of defining the state's role in the economy. Is it the director of a multidivisional enterprise or the sovereign over the economy which represents the entirety of social interests? It is not necessary to recall how inflationary the first alternative is. The same set of problems includes misunderstandings connected with equating centralized management and centralized planning, i.e., the tendency to ennoble centralized management as a form of implementation of centralized planning. The reform and its anti-inflationary accents suffer most from vulgarized, essentially erroneous interpretations of monetary-material relations and categories that have still not been overcome. An uncritical definition of individual work as work of a directly social nature because of the planned character of the economy caused an avalanche of fatal consequences. Outlays are automatically regarded as value-creating and their objective verification becomes unnecessary. Consequently, there is nothing more profitable than to increase value simply by increasing costs. These errors, in turn, make it more difficult to abandon cost-related prices. But as long as prices are defined as total outlays plus profit surcharge, rather than a verified result of outlays which can differ considerably from costs, it will not be possible to counteract cost-inflation effectively. Socialist economy suffers from a peculiar contradiction. On one hand it needs surplus economic product, but on the other it is reluctant to make the maximization of the difference between benefits and costs an essential goal of economic activity. The reform still provides an opportunity to change this situation by emphasizing profit as the main form of surplus, instead of the turnover tax as used to be the case. However, the role of this tax has recently begun to increase again, excessively.

We should also mention a lack of clarity in certain imponderables of the system. The point is that criteria of "goodness" of the system have not been officially and clearly formulated; there has been no clear, logical classification of elements of the system which would prevent some of its aspects from being overlooked. The criteria of "goodness" are:

1. ability to favor optimal allocation for the future;
2. ability to utilize existing potential fully;
3. ability to absorb innovations;
4. ability to function in ways conducive to equilibrium;
5. ability to compel high quality and cost-savings;
6. functioning to shorten the reaction time with respect to economic phenomena and decisionmaking.

The essential elements of the system worthy of the name are as follows:

1. legal and statutory bases of the system;
2. the institutional and subjective structure of the economy;
3. the structure of authority and manner of decisionmaking;
4. the system of supplying factors of production and financing the economy;
5. price system and market relations;
6. wage systems and relations of redistribution;
7. economic results, their assessment and taxation.

In the evaluation of the entirety of systemic solutions of the reform from an anti-inflationary perspective one cannot fail to see considerable progress in comparison with the previous system. They have established bases for the emergence of a microeconomic anti-inflationary barrier and backing away from soft financing. Some steps were also made to rehabilitate economic surplus. However, apart from the mistakes of current system policies to be discussed below, inflationary factors remain with the essence of the system. One should include among them economic consequences of the lack of transformation in the institutional and subjective structure of the center, and the related contradictions and obscurity of the decision-making and jurisdictional authority. This causes insufficient hardness of financing, vagueness of financial responsibility, etc. Another inflationary factor involves a lack of consistency in the area of monetary-material relations mentioned above.

4. Economic Policy and System Reform

From the point of view of countering inflation, current economic policies do not deserve enthusiastic applause. Their "qualitative" aspect, monetary and budget policy, has not so far contributed to the liquidation of the inflationary gap. From this point of view, central extra-systemic decisions about wage increases are especially dangerous. As recently noted by

Prof Bobrowski, the subordination of state budget to the Central Annual Plan, compelling a budgetary deficit, is equally dangerous. It should be remembered that we do not have the possibility of financing a budgetary deficit in Poland in the American manner. The third inflationary aspect of "quantitative" policy involves the increasing ease with which the central financing of investments can be made. These three factors together create a real danger of further growth of the inflationary gap, even if the systemic solutions act to counter inflation.

Observation of monetary policy has lately given the impression that it continues to carry out the unwritten doctrine of independence of socio-economic policies from the reform, and that the doctrine rests on a faulty understanding of the primacy of politics over economics. It is feared that the policy of extra-systemic nominal wage growth springs from a defective diagnosis of true public opinion. There are many indications that above all else working people desire economic order that would open certain stable prospects and insure proper economic relations.

Insofar as the systemic, "qualitative" aspect of current economic policy is concerned, its anti-inflationary edge has a primarily restrictive character rather than one favorable to expansion. A classic example is provided by the problem of quality of production. Solutions in this area are exceedingly primitive, failing to take into account the difference between the quality of type and the quality of finished product. They impose restrictions against lowering the quality of production but do not stimulate "new" quality at all. An excessive number of regulations of all kinds, present in the recently promulgated modifications, will in and of themselves function against expansion. Current systemic policies have done nothing to emphasize using those features of the system which contain the promise of acting to counter inflation. They have not closed loopholes which permit illegal management actions by parent organizations, and have not made any progress in promoting surplus product. Nor does keeping the net sold production as the basis of wage structure favor countering inflation, since ways to increase it through increases in labor costs do not exist. Profits and their distribution do not then compete against added production. These deficiencies cannot be balanced by such positive changes as a conversion to linear profit taxation. The position of enterprise self-government has been weakened to some extent by promoting new trade unions which proclaim slogans that are more attractive to the work force, thereby making prospects of integrating the working people around rational management of enterprises more remote. In sum, it does not seem that the present shape of current systemic policies has a chance to create a basis for a qualitative breakthrough in the economy. It is a policy which may result in small quantitative changes, small improvement of some indicators, but cannot break the existing relations or function effectively in the struggle against inflation.

5. Conditions for Effectively Counteracting Inflation

It is a truism that the struggle against inflation demands an absolute coordination of efforts directed toward this goal. The fundamental discrepancy between the statutory bases of the economic system, created in order to rationalize the economy, and current monetary and systemic policies must not be allowed to continue. The subordination of socioeconomic policies to the implications flowing from the essence of the new system must be regarded as imperative, for the systemic reform constitutes our last economic reserve. The struggle against the inflationary gap requires changes in three main areas: 1) the general system; 2) current "quantitative" economic policies; 3) current "qualitative" systemic policies.

On a general systemic plane, it is necessary to lead to the shaping of the institutional structure and the scope of authority of central organs that would not interfere with the return to microeconomic rationality in all its aspects. Transferring the main thrust of central actions from parent organizations to control and inspection organs seems especially worthwhile. This is one of the essential conditions for full implementation of the principle of self-financing. Another general systemic endeavor should concern a clear, unambiguous determination in the sphere of monetary-material relations and categories. One must proceed on the assumption that voluntaristic use of material-monetary categories independently of the natural conditions of their functioning has been sufficiently discredited. The new economic system does not tolerate a discretionary understanding of prices and profits. In its mechanisms, the functions of prices and profits are well defined--they are not discretionary or adopted from the previous system. Prices must be regarded as verified results of outlays, and profits as desired, maximized differences between results and costs. This is a fundamental condition for a breakthrough in effectiveness.

Current system policies should aim in the same direction. Their decisions should stimulate the expansion of production while preserving proper economic relations, and they should clearly define a concrete scope of authority and material responsibility. They should also counteract tendencies toward wage leveling which serve neither to overcome the crisis nor the fight against inflation. Current system policies should emphasize success in production rather than problems of distribution, which are almost always de-stimulative. Such policies should help strengthen the systemic bases for a return to market equilibrium. It is also necessary to dispel the atmosphere of suspicion surrounding profit and surplus product. If we need it we should not be ashamed of it. We will overcome the crisis thanks to managerial initiative and taking care of economically justified deals, not by restrictions and sacrifices which impede expansion. From this point of view caution is advised in restoring turnover tax as the main source of state budget revenue because it is inadvisable to deprecate profit as a goal of economic activity. It is difficult to proclaim the maximization of the turnover tax as a goal in itself. We need systemic solutions which would promote the obtaining of great results with small costs. The struggle against the inflationary gap is a struggle for economic surplus.

Finally, it is obvious that the current "quantitative" monetary policy cannot shatter successes achieved thanks to the functioning of the system. Monetary policy cannot devalue the struggle for economic results. While fully appreciating its tasks in the social sphere, i.e., the sphere of extra-systemic financing, one should at the same time create a system which would prevent the making of decisions with obviously inflationary consequences.

This review of the systemic, political and economic front of the struggle against inflation demonstrates how much a well-thought-out and determined offensive is needed there.

12503

CSO: 2600/1140

CONSTRUCTION FIRMS OVERCOMMITTED ON NEW CONTRACTS

Warsaw RZECZPOSPOLITA in Polish 10 Aug 84 p 4

[Article by (masz): "The Increasingly Longer Implementation of Investments"]

[Text] One of the effects of an overly developed investment front is the prolonged period of time it takes to implement them [investments]. From the information obtained by the Task Force for Investments and Construction of the Council of Ministers Planning Commission, it follows that the average cycle for the implementation of assignments turned over for use last year amounted to 50.1 months. The period of construction was nearly 11 months longer than in 1980 and as much as 20 months longer than in 1975.

The reasons for the increasingly longer period of time it takes to implement assignments should be sought in, above all, the excessively large amount of construction work being carried out concurrently, in shortages of certain materials and also in problems of contractor enterprises related to a shortage of qualified workers, especially for installation and finishing work.

Construction enterprises accept new assignments, adding to their file of commissioned work partly because they want to improve their budget and partly because they give in to various types of pressure. In this situation, the minister of construction, who constitutes a founding organ for the construction enterprises, approached them with the suggestion that in the second half of this year they should not take on the implementation of new assignments, with the exception, of course, of housing construction and the construction of buildings of the technical and social infrastructure.

It is difficult to predict to what extent this appeal will be adhered to in practice. However, we should have hope that construction firms are aware that the investor will work out a way to "release" them from implementing their contract commitments.

9853

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GOVERNMENT LEVIES ON DEPRECIATION ALLOWANCE RATES DEFENDED

Warsaw RZECZPOSPOLITA in Polish 10 Aug 84 p 4

[Article by (CH): "Is There Enough for Modernization?"]

[Text] Since January of this year new principles of establishing and distributing depreciation allowances have been in effect. They were introduced by a law designed to modify certain solutions of the economic reform. The change in the construction of this economic mechanism, which guaranteed enterprises the opportunity to reconstruct production assets, arose from the revaluation of fixed assets carried out a year earlier.

Due to the continuing budget deficit and a lack of funds for central investments, it was decided that a specific percentage of allowances, determined individually for each branch in the Central Annual Plan, will aid the budget. Such a solution is supposed to prevent the expansion of the investment front while at the same time serving as an instrument for the restructuring of the economy.

The principles governing depreciation allowances are among those elements of economic policy whose effects can be observed from the perspective of many years. From a distance of hardly more than half a year, it is extremely difficult to assess their effectiveness, especially since other instruments of the reform, such as, for example, the system of income tax breaks and exemptions and reduced payments into the PFAZ [State Vocational Activation Fund], are also aimed at stimulating structural changes in the economy.

The needs of enterprises, especially modernizing needs, are considerable. The Paplinski Glass works of Wolomin, which is nearly 100 years old, is no exception. Its modern aspect, represented by automated Japanese production lines for the manufacture of heat-resistant glasses, coexists with a traditional production system whose equipment in some cases is 50 years old. The shortage of working hands caused by difficult working conditions and uncompetitive wages determines the directions which the development of the enterprise will follow. Briefly put, they are as follows: a reduction of production costs and an enlargement of the selection of consumer goods produced.

Among the development projects adapted to the plant's economizing plan is the construction of a tank for liquid oxygen which supplies the automated lines. The gas in cylinder containers which the glassworks uses is currently twice as expensive as the gas received by rail transport and stored on the plant premises. The overhaul of an outdated power network and the construction of a furnace which recaptures heat from tanks containing molten glass are also foreseen projects. Such a system will be used to heat the plant. Though is also being given to starting the automated production of thermos flasks, which continue to be widely sought on the domestic market. However, this necessitates the purchase or production of several additional machines.

These tasks are described as the most pressing for the glassworks. However, will there be sufficient funds to finance them? There is so-called restrained optimism among the plant management with regard to this.

During the last few years, approximately 60-70 percent of the profits for distribution were appropriated annually for the development fund. This suffices not only for the payment of installments on investment credit but also for the replenishment of the development fund.

"The basic difficulty," says the assistant director for economic matters, Tadeusz Rostkowski, "is based on the fact that we have serious problems with laying out these funds. The tight money bank policy means that our 80 million zlotys from the development fund have been 'engaged' to finance the current activity of the enterprise. Reaching for a more considerable portion of this amount could, it would seem, lead to a paradoxical shortage of funds for financing reserve supplies, the payment of current fees, etc.

"Another serious difficulty is a shortage of material and also a lack of contractors for certain specialized work. This means that most of the modernizing work in the glassworks is done by the enterprise's own repair-construction brigades. This is not the best of solutions, though it is favorable from an economic point of view. It is simply cheaper."

The modified principles governing the division of depreciation allowances between the budget and an enterprise's development fund have not introduced, for all practical purposes, any changes in the financial situation of the enterprise. The glass-making industry, which manufactures sought-after consumer goods, has retained considerably more than 50 percent of the depreciation allowance for its needs. Nevertheless, there are many voices proclaiming that the entire sum of the depreciation allowance should remain in the enterprise and serve the financing of development. However, the needs of the reconstruction of the economy's structure do not allow for such a solution.

9853

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SHIPPING, FISHING INDUSTRY GRIPEs AIRED AT FORUM

Warsaw ZYGLI GOSPODARCZE in Polish No 34, 19 Aug 84 p 2

[Article by Irena Dryll]

[Text] The consultation organized at the Office of Maritime Economy [UGM] on 10 August, as a result of general consultations on the 1985 Central Annual Plan [CPR] proposals, proceeded somewhat against the current. As a point of departure, the organizers accepted the fact that this would not be a consultation on the maritime economic plan, but rather a session on the positive and negative points of the 1985 CPR. The deputy minister of the UGM, Ryszard Pospieszynski, who chaired the meeting, encouraged those gathered to express their opinions on the variants concerning the money market and the housing construction situation, as well as the creation and distribution of national income. The consultation participants, including several dozen workers council representatives from shipping, fishing, port and marine shipbuilding repair facilities, as well as several leading trade unions, were not so easily convinced. Keeping in mind the saying that "the skin is closer to the body than a shirt," they attempted to fit the general assumptions to their needs and capabilities. The ministry wanted their opinions as to the specifics. They, in turn, wanted to see themselves, their enterprise, its branches, and profits in the overall picture.

The UGM proposals concerning next year's plan, presented by Andrzej Gdula, director of the fiscal and economic department, illustrated to those gathered the scope of tasks and the difficulties involved. From his speech it was apparent that the predicted fulfillment of all the fundamental concepts of the current year would improve with regard to the maritime economy. Merchant marine freight shipment would increase (by 2.1 percent), as would seaport transshipments (6.9 percent), ocean fishing (1.4 percent), and delivery of fish to market (8.7 percent). The value of sales at the repair shipyards (up to 13.1 percent), ship repair industry exports (7.5 percent), and export of fish to hard currency countries (5.9 percent) would also increase. The director warned that the statistics presented by him should be treated as preliminary, and would be defined precisely during the course of consultations with the enterprises and through continued planning.

He also mentioned the chief problems: advancing depreciation of fixed assets in the maritime economy, uncertainty as to the development of foreign trade,

employment shortage particularly in ports and ship repair facilities, problems with rail transport, relocation of the fishing fleet to U.S. fishing waters, and basic modifications in the structure of fishing in the Baltic. This included a growth in the sprat catch, and a decline in cod and herring catches, unprofitability of certain enterprises, and nonfulfillment of the investment plan. He also added to this the systemic conditioning of 1985 maritime economy activities, including improved efficiency criteria, especially in services and priorities for the State Vocational Activation Fund [PFAZ].

Depreciation: the threat first mentioned became a number one issue, and judging from the discussion it overshadowed other grave problems. Depreciation of the Gdynia, Gdansk, Wladyslawowo, and Hel port assets is of an advancing and increasingly negative nature, and is affecting foreign trade results, Polish fleet personnel, and ship construction and repairs. The existing assets of the ship repair facilities and the deep-sea fishing fleet are also far from satisfactory. (Incidentally, with regard to this matter, in May 1984 the Council of Ministers adopted a resolution recognizing the purchase of fishing vessels as indispensable for the national economy.) The statements of the consultation participants uncovered one of the fundamental dilemmas of the 1985 plan. That is how to reconcile the maintenance of 1985 investments as represented in the CPR proposals on the planned 1984 level, together with the essential investment needs appearing in almost every one of the enterprises of the maritime economy.

The first speaker, Tadeusz Wrzochol from the Gdynia commercial port, talked about a distinct improvement in management and overfulfillment of the plan with regard to port activities. He noted, however, that despite the 8 to 10 percent increase in depreciable value, full coverage of investment needs for the modernization of the port infrastructure and repayment of capital credits incurred for construction of the container fleet will be impossible. The speaker cited the Gdansk PZPR Provincial Committee Executive Board resolution dated the end of June 1984, which stipulated a different type of financing for this type of investment than that which is currently in use, and retention of total depreciation by the port enterprises.

The next speaker, Rydzard Wloch, chairman of the Szczecin-Swinoujscie Port Authority, recalled that the CPR proposals published in RZECZPOSPOLITA refer to the ports in one line: in comparison with 1984, transshipments will increase by 6.9 percent, and of this transit shipments will increase by 7.7 percent. In his opinion, the size of the transshipments represents a very flexible issue.

He stated that 18.8 million tons were anticipated. In June it became apparent that it would reach 20 million, and currently transshipment estimates have reached 20 to 22 million tons. In his opinion, this signifies the achievement of a technical level of transshipment capability. The port's technical potential, however, is quite used-up and obsolete. Investments would represent one solution, specifically the planned construction of a new wharf and warehouses. This would, however, replace people with newer

technology. During the past 4 years, approximately 1,000 port employees, mainly longshoremen, lost their jobs.

He indicated that "we are apprehensive about whether or not our plans will be attainable considering the investment policy for next year."

This question remained unanswered. Shipyard and fishing enterprise representatives also mentioned the depreciation problem.

Andrzej Wintowski, deputy chairman of the Parnica Shipyard repair facilities workers' council, noted: "We are in the best position, since the level of our fleet should bring to mind the technical status of the Greek and Panamanian ships which we are repairing. The question of hard currency is also related to this. At the moment our entire depreciation allowance goes toward the purchase of necessary supply materials such as paints and laquers. We do not have enough to purchase small equipment, tools, and measuring equipment needed to furnish our ships."

A fragment of the speech by Aleksander Kobek, chairman of the workers' council of the Odra fishing enterprise in Swinoujscie, represented an eloquent illustration of the existing assets of the maritime economy.

The deputy minister leading the discussions noted at a certain moment that "the fishermen present have not been heard from, and the market supply of protein represents a big problem. The growth rate for fish is low and we must do something to improve it."

The Odra representative found himself called to the blackboard, and state: "Next year the catch will be more productive, but we do not foresee increased sales of fish. Why? Because over 20 percent of our fleet will have to undergo capital repairs. Therefore, we will be lucky if volume does not decline." A. Kobek also stressed that self-management has attempted to guarantee the fulfillment of tasks related to market supply. "In distributing revenues for last year, we allocated as much as 75 percent for the development fund."

From the speech by Czeslaw Lukaszewski, chairman of the workers' council from the Gryf fishing enterprise in Szczecin, it became apparent that the fleet repairs itself through its exports.

"We export fish in order to cover our hard currency expenditures for the purchase of parts for ships. We purchase them almost exclusively for hard currency, and from domestic manufacturers such as the Cegielski plant."

"We recall that recently fishing has been included in the food category, and as a result of this there is a better chance than before for improvement in equipment allocations. For the near future (until 1988) deep-sea fishing enterprises want to build eight large modern trawlers at the Polish shipyards. Edward Korenczuk, deputy council chairman from the Kogo fishing enterprise in Hel, noted that Baltic fishermen are counting on 17 new and better

functioning fishing boats. The rebuilding of the fleet will take time, but certain experts believe that before this comes about beginning next year we will be faced with several years of declining production and catches. How can we reconcile this situation with market demands which even now suffer from a shortage of fish?

In fact, as I indicated above, the preliminary UGM proposals insofar as the supply of fish is concerned are quite optimistic (an increase of 8.7 percent). But the road from the proposal stage to the fulfillment stage is long.

The second basic dilemma concerning the 1985 plan which came out during the consultations concerns remuneration for increased productivity. Maciej Manicki, chairman of the Federation of Shipbuilding and Repair Industry Trade Unions, notes: "We definitely cannot agree with the theory being propounded by the CPR proposals with regard to decreasing the level of remuneration for increased productivity of material production. All the more so, since the proposals stipulate a growth in sales of industrial goods linked with the growth of production achieved only as a result of higher productivity." The chairman recalled that at the consultations with the union members, one of the ministers discussed decreasing the 1985 adjustment index for remuneration from 0.5 to 0.4. In the chairman's opinion, the ship repair facilities subject to the obligatory index of 0.5 are facing difficulties in holding on to employees even now. (This index was increased to 0.65 and 0.68, and in one case even to 0.8 for the industrial shipyards subordinate to the Ministry of Metallurgy and Machine Industry.) In the view of the federation chairman, decreased remuneration for productivity will bring productivity down. In addition, it will not ensure increased remuneration which would allow for maintaining real wages on a 1984 level. This, then, is the subject of the proposals.

A similar view was expressed by A. Kwintowski from the Parnica Shipyard. Lower remuneration for increased productivity will reflect negatively not only on the production level, but also on its structure. He stated that the shipyard will seek revenues not through the necessary increased production, as is presently done, but rather by a change in variety of production.

Other already mentioned participants (for example, T. Wrzochol and E. Korenczuk) referred to this matter indirectly. Namely, they mentioned the positive results of the implementation of the factory remuneration system based upon the January 1984 wage law. In their opinion, an increase in remuneration for productivity yielded higher production and decreased costs, and also halted fluctuations, especially with regard to the loss of employees.

The third issue discussed concerned the social sector. M. Manicki indicated the need for considering the minimum wage issue together with the CPR discussion.

He stated that it had not been revalorized for many years, and this was having a negative effect on the social fund level. The speaker added that the mechanism for calculating the social fund (one-half of the minimum wage for one employee) makes it impossible for many enterprises to satisfy the basic needs of the workers.

This last issue did not meet with a response from the group, perhaps because of the makeup of the representatives (workers council members). The only one who reacted was Jerzy Szreter, director of the employment division of the economic department. He explained that approximately 20 percent of the secondary services are linked to the minimum wage, while different types of services accounted for are based upon it. Even a minimum wage increase of, for example, 100 zlotys involves vast expenditures of approximately 3 billion zlotys from these secondary funds. The primary purpose of making the entire social services package, more flexible precisely because it is based on the minimum wage, was totally unrealistic. I have not mentioned the director's statements concerning the problem of decreasing remuneration for higher productivity since, as befits a loyal official, they were in complete agreement and identical to the motives contained in the CPR proposals.

And, finally, I would like to make a brief comment. One of the participants began his speech with criticism of the consultation procedure.

He stated, "I arrived here with only my opinion on these issues. I was informed of the consultation only 3 to 4 days ago, and many council members never found out because they are on vacation. The ministry also facilitated matters for itself by not bringing the broad proposals closer in."

One must see the entire structure before it is possible to arrange these department-branch bricks, the deputy minister said while defending himself justifiably. He also added, "We are just not learning from the consultations."

This is hard to deny; nonetheless, the lesson was not dull.

12229

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ELECTRIC POWER OUTLOOK FOR 1985

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 25-27 Aug 84 p 3

[Article by R. Jovanovic: "Electricity Is Holding Back Development?"]

[Text] How the sowing has been done for the past decade in the electric power industry, so it shall probably reap next year. In some republics and provinces there will be much less power than needed, so that in spite of the somewhat smaller overall gap between output and consumption than this year, in some republics and provinces next year it will be a factor limiting economic growth and development. That would be something which is not done anywhere at this point—for economic growth to be intentionally curtailed because of a shortage of electric power.

In Bosnia-Hercegovina, Montenegro and Vojvodina lower consumption of electric power than the estimated actual consumption for this year is for the first time since the war being envisaged in 1985.

According to the first examination of the electric power balance of the Yugoslav electric power industry, the lack, if heavy fuel oil is obtained for the anticipated operation of oil-fired power plants, will be only 740 million kwh of electric power. On the basis of the estimate, that gap between possible total production and consumption of electric power will be a fraction of what it has been in previous years. This would also be achieved by restraint (if necessary also restriction) of consumption, that is, by its reduction in certain republics and the Province of Vojvodina.

The electric power industries of Slovenia and Croatia, according to the first examinations, would have a balanced electric power balance next year. The condition is that 860,000 tons of heavy fuel oil be obtained for operation of power plants in Croatia. In Kosovo's electric power industry there is a surplus of 1,206 billion kwh of electric power. A surplus of 275 million kwh also occurs for the first time in Macedonia, after several years of large power shortage. Kosovo and Macedonia would sell most of that surplus, unless they are furnished foreign exchange in some other way, to foreign trading partners in order to repay debts denominated in foreign currencies.

All of the other electric power industries in the country, including the largest, in Serbia, estimate at present that they will have less electric power

next year than they need. The shortage will be greater for some and smaller for others, but most disturbing is that it is being announced even in those electric power industries which are planning to cut back on consumption next year relative to estimated consumption for this year.

Shortages of electric power have been indicated by the electric power industries of Bosnia-Hercegovina--1,295 billion kwh (12.3 percent of the demand), Montenegro--628 million kwh (19.7 percent), Serbia proper--300 million kwh (1.9 percent) and Vojvodina--73 million kwh (1.1 percent of consumers' needs).

A surplus of electric power occurs in Macedonia because new power plants will go on line with full capacity and a large direct consumer will close down: FENI in Kavadarci. This, of course, assumes that heavy fuel oil will be obtained. The electric power industry of this republic, however, is also planning a consumption that is greater by all of 14.3 percent. That growth of consumption is not unrealistic, since it was calculated on the basis of actual consumption in earlier years and this year, when there were important restrictions.

Under certain conditions Croatia would have a balanced electroenergy balance with a 7.7-percent larger consumption of power. Slovenia will achieve balance with a very modest growth of consumption next year relative to estimated consumption this year--an increase of only 2.9 percent. In that republic consumption could be even higher if there is enough coal, since the "Sostanj" Thermal Electric Power Plant is operating at only part of its capacity.

Kosovo will have a surplus with an output that is 45.7 percent greater. The surplus occurs in spite of the high jump of consumption by 71.6 percent, which is planned because a large consumer will be connected: the Ferronickel Mine and Smeltery in Glogovac. In Serbia it is estimated that there will be a negligible shortage next year, but electric power consumption will grow at a sizable rate of 6.8 percent.

[Box]

How Large Will the Gap Be?

According to the first examination, it is estimated that in 1985 total previously planned gross output of power in the country will be 76,524 billion kwh, which is 3.9 billion kwh, or 5.4 percent, higher than the anticipated output in 1984.

Achieving that high production, when no sizable new capacities are anticipated to go on line, and the growth rate of consumption is more modest than several years previously, requires quite a few things which are objectively uncertain. The first and with respect to feasibility most realistic condition is the production of 57.5 million tons of coal, the purchase of 1.1 million tons of liquid fuel, 163,000 tons of it for ignition in solid-fuel power plants, 603 million cubic meters of natural gas, and 16 tons of enriched uranium for the "Krsko" Nuclear Power Plant.

The gap between the possible output and consumption next year, which is 740 million kwh, or 1.1 percent of estimated needs, is smaller than in the last several years. But there are important possibilities of an increase. It is enough for the winter to be lengthy and severe, for the precipitation to be less than anticipated, and for not enough heavy fuel oil to be obtained, as was the case this year.

7045

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DATA ON WORK STOPPAGES, CAUSES DISCUSSED

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 25-27 Aug 84 p 11

[Article by G. Dimevska: "The Right to the Truth"]

[Text] Work stoppages in our self-managed socialist society are certainly an unpleasant phenomenon, especially since the worker is the principal holder of power. However, even our society at the present level of development is not spared various difficulties and deviant phenomena. The still insufficiently developed self-management relations in numerous workplaces are something which deserve a special approach in the involvement of all sociopolitical structures, especially structures in associated labor. Nor is Macedonia any exception in this respect. Recently the workers have been increasingly vigorous in taking the positions guaranteed them by the constitution.

In most cases this is done in a very organized way through basic organizations of trade unions, the League of Communists or through the bodies of self-management. But there are also underdeveloped workplaces where this is difficult to do. Which accounts for the phenomenon that the worker does decide to undertake an unpopular work stoppage. That is, the consequences of a work stoppage in over 90 percent of the cases are minimal, and they have been terminated after only a few hours. Preventive information, the people in the trade unions feel, would certainly help to combat these occurrences.

In 1983 there were 35 recorded work stoppages. In all, 2,550 workers stopped work, and 9,810 hours of work were lost. On the average the worker "tried to make his point" for more than 3.5 hours, expressing his personal dissatisfaction in this way.

The trade union has been following this phenomenon intensely once again this year. In the first 6 months 20 work stoppages were recorded in 9 opstinas. They all had similar characteristics as in the previous year. With the exception of the case of "Idnina" in Kratovo, where a Yugoslav record was achieved, workers staying away from their job for 45 days. A more profound analysis has been made into why the worker revolts in this way, and here is what was learned. In half of the 20 cases their principal reason was the payment of low personal incomes.

It was not clear to the workers why they were receiving "thin" pay envelopes, when they were fulfilling their planned production targets. No one informed them in advance about inventories, sales, new legal regulations taking effect, and so on, or, put briefly, about the altered conditions for the conduct of economic activity. There has been a great lack of information on these key matters. In 9 of the 10 such cases the work stoppage lasted between 2 and 8 hours. In seven cases the workers decided on this step because even after 2 months or more they had not received their personal income, nor had they had first-hand information as to how long that would last. The datum that these shortages lasted the shortest time sufficiently illustrates that this is not a question of not understanding the economic situation. In only two cases did the reasons have to do with deteriorated human relations in the collective. The epilogue was expulsion of the general director and his closest collaborators from the collective.

In most of the 20 work stoppages recorded in the first half of this year, aside from the reasons already given, the inappropriate system for distribution of personal incomes was often cited. This is especially typical of those OUR's [organization of associated labor] which consist of several OOUR's [basic organization of associated labor]. By all appearances, it is difficult for the workers to reconcile themselves to the fact that personal incomes in one OOUR are paid regularly, while in another they are not. An analysis of the Republic Trade Union Federation reveals something else as well. When there was intervention from outside to halt the stoppage as soon as possible, this was usually done by the opstina trade union, less frequently by the republic trade union or other opstina and republic entities.

However, it was generally learned that in all these collectives the basic organizations of the trade union and the League of Communists were not up to their tasks. The Federation of Macedonian Trade Unions looks on these occurrences with particular seriousness and has already programmed its activity in this area. The point of departure is the most specific possible responsibility of the basic trade union organization with the entire membership.

They are being directed toward a closer linkage with the worker in defense of his interests, in agreeing on the system of distribution of income and personal incomes, and so on. It is impermissible, it is said, for the working people at times to go to court to realize their rights in self-management, when this cannot be done by the basic trade union organization. The solution for combating these negative occurrences should be sought precisely in an authentic invigoration of the basic trade union organization.

7045
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FINANCIAL INVESTMENT OVERRUNS DISCUSSED

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 25-27 Aug 84 p 3

[Article by Vlastimir Popovic: "Overruns: A Leap Into the Void"]

[Text] The rule of contemporary economics that investment must be done rapidly so as to see the effects of the investment as soon as possible--is still not being applied in our country. Excessive investment spending, which has been pointed to as one of the basic "generators" of inflation, seems to be slacking off, judging by the number of projects under construction. Over the last several months that number has dropped by about 2,000, and it is assumed that this trend will continue. However, these are relatively very small investments, as indicated by the most recent figures of the Social Accounting Service of Yugoslavia. The very small investment projects, with an individual value of 50 million dinars, number some 15,500 projects, which is almost four-fifths of the total number of projects. Better put, only 2.4 percent of the capital investment projects have an estimated cost greater than 500 million dinars, but at the same time they account for 65 percent of the total estimated cost of all projects now under construction.

Completion of nine of the largest projects is anticipated by the end of 1988; their average individual estimated cost exceeds 3.5 billion dinars. But whether this will be achieved is another question, and in view of the circumstances under which those projects have been built up to now and examining the inauspicious financial packages, it can be said almost with certainty that it will ~~not~~ be done.

The ~~witches'~~ dance looks like this: the investor, in order to succeed in starting to realize his ambitions, simply falsifies the documentation with the blessing of sociopolitical communities, the construction contractors, who do not have enough business, accept (on paper) lower prices for their services, even furnish credit to finance the undertakings, since this is a condition for undertaking the projects, and an additional transfusion of money and credit is anticipated later, and--the deadline is not met. Every delay signifies in turn a cost overrun, poorer results on the market when the project is finally completed, and all the rest, which is more or less familiar.

Let us take just one example: a project which was recently completed cost a total of 63.2 billion dinars, all of 55.2 billion given for overruns. Or: a

project still under construction has so far received 42.8 billion dinars, of which 39.5 represents overruns. But let us not enumerate, there are 25 "grand," as they are called, projects which constitute the bulk of the cost of the projects and also represent the principal sources of overruns.

But is it really possible for people offering project documentation, who offer "closed" financial packages for adoption, who make solemn declarations and who lay cornerstones—do they actually have no sense for lower mathematics? Yet it seems that the frequently mentioned problem lies above all in the offices of opstinas, regions, republics and provinces. There is no need to enumerate even DINA, Obrovac, FENI, nor hardboard panels to prove this. After all, let us look at the most recent situation. Over the last 6 months the "policy" of intensified interrepublic-province encapsulization has continued. From the investment standpoint it is well known that this means, and in particular it is more than evident that most investors are counting on some abstract money, money which actually does not exist anywhere, and that money gleaned here and there is utterly exposed to the blow of inflation.

Total interrepublic-province investments over the last 6 months have reached 5.4 billion dinars. To indicate that this is actually nothing, we will say that it represents a token 0.28 percent of the total estimated cost of all capital investment projects. Here is how "collaboration" has developed: at the end of March 1983 the share in total cost was 0.38 percent, and 6 months later it was 0.33 percent. The trend is more than clear.

Over 55 percent of the "cooperation" represents investment of investors from the advanced and underdeveloped regions. Better put, they are using money which is in any case set aside in the Fund for the Underdeveloped. But that is another tale.

Let us take the datum to the effect that for various reasons, objective and nonobjective, the total overrun of projects under construction has already exceeded 810 billion dinars. That is 73 percent more than the estimated cost!

The objective circumstances include the high rate of inflation, whose growth is greatly furthered by the overruns, and then the drop in the rate of exchange of the dinar and the like, but in what we refer to as objective there is still too much of that other. It is still uncommon for the names of the sponsors of the unsuccessful investment projects to be mentioned, and this might include some who are some 10 years late.

The investment cycle is not excessively long by accident. Construction began 10 years ago or more on 128 of the largest projects, whose estimated cost exceeds 1.3 billion dinars on the average. But they could not be completed more quickly in view of the autarkic behavior of the representatives of sociopolitical communities. It seems in vain to expect not only that someone will take the consequences for past mistakes, but also that in future the conduct of investment policy will be put in other less guilty hands.

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